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FINANCING NON-TRADITIONAL EXPORTERS IN GHANA: Assessment of Needs and Recommendations for USAID Assistance

FINAL REPORT

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ASSESSMENT OF NEEDS AND RECOMMENDATIONS FOR USAID ASSISTANCE

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EXECUTIVE SUMMARY

A. Introduction

This study describes the export finance services available in Ghana, assesses the need and demand for export finance by non-traditional exporters (NTEs), and recommends assistance that USAID/Ghana could provide to facilitate the financing requirements of NTEs.

Two export finance specialists from First Washington Associates visited Ghana for two weeks in October 1991 to assess the need for export finance. Interviews were held with exporters and with representatives of Ghanaian financial institutions, including commercial banks, merchant banks, Export Finance Company, discount houses, Bank of Ghana, as well as GEPC and other government organizations, to ascertain their views on the export finance needs of non-traditional exporters and how they might be assisted. Relevant available surveys and reports were reviewed.

B. Findings

1. Non-Traditional Exports

Exports from Ghana have remained relatively constant in U.S. dollar terms during the 1986-1990 period. Traditional products, defined as cocoa, timber, minerals and energy, have dominated Ghanaian exports, but NTEs have increased rapidly and represent a growing share of the total exports, rising from 3.2% (US$24 million) in 1986 to 7% (US$62 million) in 1990. Processed and semi-processed goods represent a growing share of NTEs (53% in 1990), while the share of agriculture has declined from 75% to 46%.

Ghanaian exports are sold primarily to industrialized countries (73% and 44% in the last two years), in particular the European Community. The next largest regional market is the Ecowas countries.

A total of 1,729 exporters exported 163 products in 1990. Less than 350 or 20% of exporters had sales exceeding US$10,000 in 1990, and only about 70 exporters shipped goods valued in excess of US$100,000. The latter accounted for over 92% of all NTEs in 1990. In most of the major NTE products, a few exporters (1-12) dominate in terms of shipments.

The new Medium Term Plan for Non-Traditional Export Development (NTE-MTP), 1991-1995, continues the objective of the former plan to increase and diversify the export base of Ghana. It sets ambitious growth rates of about 40% per annum for agriculture and manufactures.

2. Export Finance Services

In Ghana, several public and private commercial banks, three merchant banks and one specialized export finance institution offer financing services to exporters. The specialized export finance institution, the Export Finance Company (EFC), has been in operation for about 16 months, and only makes short term export loans. There are no specialized government programs to provide export loans, guarantees or insurance to non-traditional exporters, similar to those operated in many developing and industrial countries. However, short and medium-term funding or guarantees not specifically designed for exporters are available from several other programs operated in the BOG.

Bank credit for the export trade reached less than 4.5% of total bank credit in 1990, a lower level than in 1987. This credit is less accessible and higher priced for exporters who must purchase imported inputs.

Commercial banks and merchant banks are basically very conservative. Pre-shipment loans for exporters are usually considered in the same manner as domestic short-term loan facilities. Few bankers' acceptances are created and none are being rediscounted.

Liquid collateral for at least 100% of the loan is required, and no bank does non-recourse post-shipment financing. Maturities on borrowings are quoted at 90 to 180 days, and interest rates range from 21% to 30% per annum, yielding the banks a spread of about 5% over the cost of funds.

NTE customers are only a small percentage of banks' customers, and it appears that only the largest and strongest NTEs are using the banking system to finance NTEs. While all the commercial banks indicated interest in financing non-traditional exporters, it was believed that most NTEs would find it difficult to qualify for loans, other than from EFC.

3. Export Finance Company

Established in 1990 as a limited liability company like totally private sector companies, the EFC is owned by four private insurance companies, three public insurance companies and the GEPC.

EFC offers direct loans of 90-180 days in cedis to non-traditional exporters for specific transactions evidenced by confirmed export orders or export letters of credit.

The procedures employed by the EFC to grant loans are quite straightforward and well designed to allow for timely processing of credit requests. Informal sector exporters are required to establish banking relationships.

In 14 months of active lending operations EFC has made loans totalling C 6,739.5 million (US$ 17.7 million) for a wide variety of export products. A total of 834 transactions to 375 exporters were financed. EFC estimates about 50% of its loans support exports within the region, with an average transaction size of C10-15 million, with a loan term of 180 days.

EFC stated that about 80% of its portfolio is current and that the remaining 20% is past due up to 180 days, but expects past due amounts to be paid. Absent an aging of receivables and an evaluation of the quality of receivables, the potential for repayment or loss associated with past due accounts cannot be evaluated.

EFC operates with a total staff of 16 persons. The Managing Director and key professional staff are seconded from the BOG to

EFC. A manual accounting system is maintained and accounts are audited annually.

Shareholders initially capitalized EFC at C120 million (US$ 315,800) or C15 million (US$39,500) per shareholder. Shareholders have agreed to double their capital contributions. The EFC was profitable for the first eleven months of operation. The main source of loan funding support has been export finance bills issued on EFC's behalf by the Treasury, which carry the guarantee of the BOG.

At June 30, 1991, EFC had C2.384 billion in export finance bills outstanding, and in addition had C1.340 billion outstanding to the Bank of Ghana and C200 million outstanding to the Ministry of Trade and Tourism (MOTT).

EFC is fully utilizing its available resources, and realizes that additional resources are needed, in both equity and lower cost, longer term financing. EFC was highly leveraged at 19:1 as of June 30, 1991. The infusion of an additional C120 million of capital will improve that ratio to 12:1, but will not allow for substantial increases in activity without further additions to capital.

EFC charges a spread of only 2% over the cost of obtaining funding through export bills. EFC considers this insufficient to compensate for risk and build reserves, but EFC's generally high borrowing rates make greater margins unfeasible from the borrowers' perspective at the present time.

4. Other Export Finance Services

Several tied aid credits from OECD countries are available for purchase of equipment to support export production. In addition, the BOG operates refinance and guarantee programs that provide general support. These have not been particularly effective. Insurance companies have offered domestic credit insurance, but no longer are actively doing so due to high loss experience and absence of sufficient reinsurance. Two discount houses operate which intermediate investment of funds among financial institutions and the BOG.

5. Need and Demand for Export Credit Services

Exporters typically need pre-shipment credit of 90-180 days. Post-shipment finance is much less of a need. NTE sales are made on a variety of terms including letters of credit, consignment, documentary collections, etc., depending on the type of product.

In detailed discussions, it became clear that exporters which operate in the informal sector, as well as those with rudimentary accounting and financial knowledge, and those with market, production performance or loan repayment problems were experiencing difficulty obtaining finance from banks.

Bankers most often cited as constraints to lending the lack of banking experience with the exporter, insufficient exporting or business experience to assure the bank that the exporter could perform, and lack of collateral. Several banks mentioned the possibility of diversion of funds by exporters that were not well known and/or did not have bona fide confirmed export orders. Those outside the formal sector are not perceived to be creditworthy for normal lending by Ghanaian bankers in general. They were considered either unbankable or only suitable for financing by EFC. A few bankers had experience lending to groups of small exporters, and suggested that this was one way to overcome the lack of financial discipline of the small exporter. Several also mentioned a perception by some borrowers (primarily small) that repayment is not required, particularly if the loan is from a government institution.

Banks have provided little financing for NTEs for a number of reasons, related to their own financial situation and to their perceptions of NTE creditworthiness. The banks are concerned with restructuring their operations, high yields on alternative uses of funds with lower risk, and in some cases, insufficient liquidity. Until the financial condition of the banks improves and the restructuring activities fully implemented, they will not be able or willing to provide needed finance. Therefore, making funds available under terms and conditions that meet banks' needs should increase the amount of bank lending to NTEs.

The EFC has been willing to provide a degree of access to finance which banks were unwilling or unable to provide. However, the EFC is fully utilizing its resources and will be unable to expand activity without additional sources of debt and equity funding. EFC needs access to additional lower cost funding resources to expand and to provide reserves for losses. The capacity of its staff and accounting/MIS systems will be insufficient to maintain the current level of activity, much less expand. Therefore, support for training, and developing and up-grading systems is required.

While pre-shipment credit was cited as an immediate financial need, exporters and financial institution representatives repeatedly stressed other constraints, such as problems with lack of information about market requirements and buyers, insufficient skills and technology to produce goods in the quantities required, and infrastructure deficiencies, such as inadequate cold storage and insufficient transport capacity. In addition, access to medium/long term finance to increase and up-grade capacity was considered by many to be a developing need as Ghanaian exporters increased sales and entered new markets.

A number of recommendations were made with respect to better access to finance. These specifically related to introduction of an export credit guarantee scheme, provision of working capital and term finance, reduction of financing costs, liberalization of foreign exchange retention and collateral requirements, and establishment of a venture capital fund. Other needs identified are for training for exporters in export finance techniques as well as financial planning and accounting.

The total need for working capital export finance and the amount of resources required is estimated as follows:

Commodity	**1991**	**1992**	**1993**	**1994**	**1995**	**Total**
Total Exports	86.1	122.0	171.5	240.1	335.6	955.3
Tot. Finance Need	47.6	67.6	93.1	132.7	185.5	527.8
Tot. Funding Requirement	20.5	29.1	40.6	57.1	79.8	226.1

The amount needed in 1991, US$47.6 million, compares with US$17.7 million financed by the EFC from August 1990 through September 1991, US$10.2 million outstanding at September 30, 1991, and the US$10.2 million credit made available to non-traditional exporters as of year-end 1990 by commercial banks. Using the EFC and bank figures as representative of available pre-shipment finance for non-traditional exports, about half the need would appear to be met by existing sources.

C. Conclusions

While the non-traditional export sector in Ghana has a major role to play in the country achieving sustainable economic growth, availability of adequate export financing must be assured in order for non-traditional exports to achieve growth and diversification expectations.

An important factor constraining faster export growth and diversification is the conservative lending posture of the commercial banks and merchant banks which are allocating a sub-optimal portion of their resources to loans for non-traditional exporters.

Further reducing growth possibilities are the banks' strict collateralization standards and strong risk aversion tendencies.

The EFC is playing an important funding role for exporters, but is reaching the limits of its borrowing capacity and is not in a position to take significant new risk in export lending operations. The capacity of its staff and its accounting/MIS systems is hardly sufficient to maintain the current level of activity, much less expand.

The most important need for the foreseeable future is for a risk-sharing mechanism to encourage the banks to allocate more resources to non-traditional exporters and substitute modern export financing techniques for old liquid asset and real property based methods of collateralization.

The other major need is for additional financial resources for the non-traditional export sector to be available on reasonable terms and conditions through existing commercial banks, merchant banks and the EFC.

Technical knowledge of design and implementation of export finance support mechanisms is lacking in Ghana, and export finance knowledge of many exporters and some bankers is inadequate. These problems should be addressed by an appropriate technical assistance program.

Based on FWA's extensive experience with export finance programs worldwide, it is critical that facilities be designed and implemented that: meet needs of many sectors, representing a wide spectrum of NTEs; are flexible so as to accommodate varied situations; serve exporters that can succeed, not only the highest risk exporters; are easy to administer; able to respond quickly to applications, due particularly to the short term nature of transactions; are operated by competent, adequately compensated staff; are acceptable to most financial institutions that provide services to exporters; are operated so as to be self-sustaining over time; are insulated from political influence, and operate with private sector standards of efficiency and responsiveness.

D. Recommendations

Based on the above conclusions, it is recommended that two facilities - a pre-shipment export credit refinance facility and a pre-shipment export credit guarantee facility - be established and appropriate technical assistance be provided for their implementation.

1. Export Credit Refinance Facility

The purpose of this facility would be to make banks more willing to finance the export sales of NTEs by making available a source of funds which can be used to support such loans. This facility specifically would address the need identified for a pool of resources for pre-shipment loans to exporters as evidenced by the lack of liquidity in some financial institutions and the full utilization of EFC resources. It could also provide lower cost funds than currently available, which would allow more NTE exporters to afford financing and remain competitive. Operating as a second tier lender, the refinance facility would work through the existing financial system and would not substitute for existing primary lenders. As recommended, the facility would deal with instruments that could readily be traded in the money market such as bankers' acceptances. It is anticipated that over time the discount rates would match those available in the market, and the need for the facility would diminish.

An eligible lender could obtain funding from the refinance facility for a loan on an eligible export transaction and exporter. Under a master agreement with the financial institution the refinance facility would purchase, at a discount, either a bill of exchange or promissory note. The credit risk would remain with the lender. Appropriate covenants under a master agreement would obligate the lender to utilize the refinancing facility only for funding loans that conform to the eligibility criteria and to maintain appropriate records, etc. Refinancing would be available only for the term of the underlying short term pre-shipment loan, which could not exceed 180 days. The discount rate could be set to correspond with market interest rates in Ghana, or could be set at some lower rate with reference to lower, but still positive, interest rates elsewhere. The formula devised could set a presumed real value on the funds provided by USAID, give some interest rate relief to exporters and would not be expected to cause significant distortions in domestic financial markets. Rates should be reviewed and adjusted regularly to reflect changes in market conditions and inflation.

It is recommended that responsibility for policy and oversight of the facility rest with an Export Refinance Committee established for the purpose. This Committee would act like a Board of Directors and would be made up of representatives from the private sector (e.g. two representatives from commercial banks/merchant banks, one from a discount house) and the public sector (e.g. GEPC and BOG), and one representative of USAID and/or other donors. An exporter association representative might also be a member in the future. The committee would meet at least monthly to take up policy matters, review and approve master agreements with lenders, review operating results and set interest rate policy. Policy changes must be approved by a majority of the Committee members and be acceptable to USAID.

After taking into consideration other alternatives for management, such as BOG and a new organization, it is recommended that day-to-day management be the responsibility of one of the discount houses. The activity is clearly one of intermediation on a short term basis, which is consistent with the current activities of the discount houses. The discount house would set up appropriate accounting and management information systems, and segregate export refinance facility funds from the rest of their activities.

It is recommended that the discount house be compensated for management of the refinance facility through some fee arrangement that covers costs and allows them to earn a reasonable profit, commensurate with what they net on their other activities. Part of the compensation could be earned by investing excess funds at their current margins for intermediation.

It is recommended that the Export Refinance Facility attempt to satisfy no more than 50% of the need for financing over the next five years. It is assumed that financial institutions will increase lending to NTEs over time and the refinance facility would fill in the gap between the need and the amounts funded by the lenders from other sources.

Taking into account the financing need identified, funding for the refinance facility would be required of US$10 million in 1992, US$7.7 million in 1993, US$8 million in 1994 and US$11.1 in 1995 for a total of US$36.8 million over the period. These projections compare with a budget requirement estimated by EFC of US$29 million outstanding for direct lending and US$16 million in refinance. Under this scenario EFC would address slightly more than 50% of the need quantified and would use slightly more than 50% of the resources of the refinance facility.

2. Export Credit Guarantee Facility

The Export Credit Guarantee Facility would encourage lenders to extend working capital financing by reducing the risk associated with pre-shipment loans to non-traditional exporters. The Export Credit Guarantee Facility would provide repayment guarantees to lenders for short-term working capital loans to qualified non-traditional exporters. The guarantee could apply to single export transactions or to loans made under a revolving line of credit where it can be demonstrated that the credits will not exceed 180 days and be used solely for the purchase/packing or production and shipment of goods to be exported. This would normally be demonstrated by exporters having irrevocable letters of credit or firm export orders. The guarantee would cover 65% of the loan principal. The maximum individual guarantee would be 10% of the capital and reserves of the Export Credit Guarantee Facility. The exporter that is guaranteed should have access to financing under the refinance facility, but lenders might also use other loan resources which offer an interest rate advantage to the exporter over the refinance facility. The guarantee would not cover non-payment by the foreign buyer.

The main source of repayment of guaranteed loans is anticipated to be the proceeds from the underlying transaction. It is not anticipated that the Export Credit Guarantee Facility would normally seek security in addition to the proceeds of the export transaction and personal guarantees, but it should have the right to do so.

It is recommended that the Export Credit Guarantee Facility be managed by a merchant bank, either Continental Acceptances or Ecobank. Both have expressed interest in the management of the facility, and both have skilled personnel that could operate the facility.

Other options for management of the facility were considered including BOG, establishment of a separate organization, EFC, an insurance company or a commercial bank. Operation by a merchant bank is preferred, presenting basically only one drawback; having a facility managed by a financial institution which users consider a competitor could cause them to be reluctant to use it for fear of losing clients to the merchant bank. It is believed that this problem could be overcome by assuring that the program does not carry the merchant bank's name, that it is marketed separately, that the accounts pertaining to the facility are kept separately, and that a committee with representatives of other lenders, the GEPC, and BOG, approve larger guarantees and set policy parameters for the guarantee facility.

The Export Refinance Review Committee proposed for the Export Refinance Facility could also serve this function. It will be important that the private sector be clearly represented to assure that private sector management skills are brought to bear and that public and private sector lenders avail themselves of the facility.

In order for export credit guarantee schemes to be successful, it is important that the users have confidence that claims will be paid in a timely manner. Having sufficient reserves to meet claims when they occur is one way to provide this confidence, as is capable management. Initially, a conservative gearing ratio of 4:1 is recommended. After experience is gained and it can be determined that a higher ratio is prudent, the ratio can be raised. To be immediately effective, the guarantee facility should be capitalized with sufficient initial reserves.

In exchange for managing the Export Credit Guarantee Facility, the merchant bank would receive a fee related to its cost of operation and a reasonable profit.

Under the guarantee as proposed, US$1 million in guarantee reserves would support US$14.7 million in annual exports. Given this leverage, a guarantee facility need not be particularly large to have a substantial impact on Ghana's non-traditional exports. Assuming that guarantees would be needed to facilitate approximately one-third of the growth in exports, capital requirements for the export credit guarantee program would be US$800,000 in 1992, US$ 1.1 million in 1993, US$1.6 million in 1994, and US$2.1 million in 1995, for a total of US$5.7 million over the period.

3. Technical Assistance Program

A technical assistance program is recommended to assure the following: (1) that the EFC serves exporters' changing needs, is fully competitive, and continues to operate on a sound basis; (2) that the new rediscount and guarantee programs are properly structured, marketed and administered; (3) that exporters are conversant with international requirements for financial competitiveness and that they are able to make full use of available financial alternatives; and (4) that financial institutions are able to offer first-class service to exporters, using modern instruments, techniques and programs.

A four year program of external technical assistance is suggested. The program should include a full time advisor for the first two years, who has had extensive experience as an executive with a successful national export credit, guarantee or insurance organization. This advisor would help design and implement the new guarantee and rediscount facilities.

Twenty months of short-term assistance by different experts is recommended, to provide specialized advice on various technical aspects of guarantee and rediscount program design and operation. The short-term experts would also design and help implement new systems, policies and procedures for the EFC, to support the base that EFC has already built. In addition, they would provide training to the EFC, other financial institutions, and the exporters.

Further training at counterpart organizations, universities and technical schools overseas should be arranged as part of the TA program. Computer equipment and software, other office equipment, and a vehicle for direct-call marketing by the EFC might also be financed as part of the TA program.

The total cost of the technical assistance program is estimated to be US$1,117,600 over the four-year period, including US$917,600 for consultant and training services in Ghana, US$100,000 for staff training overseas, and US$100,000 for procurement of computers, software and other equipment for the EFC.

I. INTRODUCTION

This study describes the export finance services available in Ghana, assesses the need and demand for export finance by non-traditional exporters (NTEs), and recommends assistance that USAID/Ghana could provide to facilitate the financing requirements of NTEs.

A. Background

USAID/Ghana is proposing to implement a Trade and Investment Program (TIP) which centers on strengthening the capacity of Ghanaian firms to produce internationally competitive goods for export. This program is expected to contribute to the continuing success of the Government of Ghana's Economic Recovery Program (ERP). The strategy focuses on developing sustainable growth in Ghana through the nascent NTE export sector, leading to reduction in Ghana's dependence on donor support as the private sector generates savings and investment over time. The purpose of the TIP - to increase private sector export growth and investment - is to be achieved, as stated in the Program Assistance Identification Proposal (PAIP), through the following:

" 1) strengthening the policy and institutional framework necessary for the private sector to significantly increase investment and exports;

" 2) improving the financing and incentives available to the private sector; and

" 3) improving the capacity of individual firms and entrepreneurs to export."

Studies undertaken by USAID identified lack of export finance for NTEs as a key constraint to increasing NTE investment. Other constraints include problems with availability of markets, technical skills and quality of products, ineffective duty drawback system, cumbersome administrative procedures related to exporting, inadequately focused institutional support for exporters, and infrastructure bottlenecks in areas such as transportation, storage systems and packaging.

The TIP proposes to address the export finance constraints through establishment of (1) a refinance facility to provide funds for pre-shipment and post-shipment finance needs of NTEs and (2) an export loan guarantee facility to assist exporters gain access to pre-shipment export finance.

B. Statement of Work

USAID/Ghana requested that this study be undertaken to assess the need for these two proposed facilities, evaluate the current willingness and capacity of Ghanaian financial institutions to meet the working capital needs of NTEs, suggest viable options as to how needed financial services could be provided to NTEs, and how USAID could assist with making these services available. The study was prepared under a buy-in to the Private Enterprise Development Support Project (PEDS), jointly funded by the USAID Bureau for Africa and the Bureau for Private Enterprise. A team of two export financing specialists was requested to undertake the study, including the following main tasks:

- Determine which financial institutions are providing (financial) services to NTEs, and describe the specific nature of those activities... (and) evaluate their efficiency and effectiveness.
- Identify the existing constraints, if any, preventing financial organizations from servicing the short term working capital needs of NTEs.
- Assess the need and demand for financial services for the NTE sector.
- Identify incentives which might encourage the Ghanaian financial sector to provide the financial services necessary for NTEs.
- Examine and determine an appropriate role for the financial sector to play in achieving the objectives of the Mission's Trade and Investment Program (TIP).
- Identify viable options to provide financial services to the NTE sector which are consistent with the TIP objectives and realistic for the Ghanaian financial environment.

- Based on the results of these findings, identify institutions that might be best qualified to collaborate with USAID/Ghana in developing an export promotion program geared to servicing the financial needs of NTEs.

In addition, the team was asked to (1) develop profiles of several typical NTE firms indicating where short term working capital might be needed, and (2) develop a list of U.S. financial institutions that are engaged in trade financing activities in Africa (and Ghana in particular) and determine the nature and scope of their activities with Ghana.

C. Methodology

Two export finance specialists from First Washington Associates (FWA), Carol Oman Urban and Frederick Zamon, visited Ghana for the two week period from October 21 through November 1, 1991.

Meetings were held with 10 exporters and associations representing exporters of specific non-traditional products to determine how they finance exports, and what type and term of financing they might require. The sample of exporters interviewed represents nearly the full range of Ghanaian NTE exporters. Exporters interviewed sold a wide spectrum of the Ghanaian NTE exports, including light manufactures, agricultural products and handicrafts. The sample included exporters that participate in regional markets and those that sell primarily to industrial country markets. Some operated primarily in the informal sector and others in the formal sector. Additionally, the consultants met with a group of approximately 20 exporters brought together to discuss their experience and concerns with respect to export finance, and attended an exporters' forum which addressed export finance, foreign exchange and procedural issues.

The financial institutions that provide services to exporters were identified and meetings held with their senior management. Interviews focussed on identifying the specific services provided to NTEs, their views on the finance problems of NTEs, and suggestions as to how these problems could be addressed. Those interviewed included representatives of both public and private sector commercial banks, merchant banks, discount houses, insurance companies and the Export Finance Company (EFC).

The consultants met with public sector representatives involved with the export sector to understand how export support programs operated and their views as to how the export finance needs of NTEs could be addressed. Public sector representatives interviewed were from the Bank of Ghana (BOG), the Ghana Export Promotion Council (GEPC), the Ministry of Finance and Economic Planning, and the Ministry of Trade and Tourism.

Extensive discussions were held with USAID/Ghana throughout the visit. The assistance received in arranging meetings and transport greatly facilitated the consultants' work during the two weeks in Ghana. The assistance and cooperation received from the entire USAID Mission in Ghana and in Washington is very much appreciated.

Key banks in the United States which are involved with trade finance in Ghana were also contacted to obtain information on their activities and experience.

A list of persons contacted while undertaking this study is shown as Attachment "A."

In addition to interviews, the consultants reviewed numerous surveys, studies and reports prepared for the Government of Ghana (GOG), USAID, the World Bank and others. Those directly related to this study are mentioned in the study where relevant.

Observations concerning the experience of other countries which could relate to the situation in Ghana are based on the extensive FWA experience and files on export credit, guarantee and insurance programs throughout the world.

Chapter II describes Ghanaian non-traditional exports with respect to size, sector, destination, mode and method of payment and prospects for growth. Chapter III presents the export finance services available in Ghana, including comments on efficiency and effectiveness of these services. The financing problems facing NTEs and the need and demand for export finance services are discussed in Chapter IV. Programs to address the needs identified are set forth in Chapter V, including suggestions with respect to institutional structure and financial requirements to implement the proposed programs. The last chapter discusses technical assistance and training needs.

II. NON-TRADITIONAL EXPORT SECTOR

A. Exports from Ghana

Exports from Ghana have remained relatively constant in U.S. dollar terms during the 1986-1990 5-year period. Traditional products, defined as cocoa, timber, minerals and energy, have dominated Ghanaian exports, but NTEs represent a growing share of the total exports, rising from 3.2% in 1986 to 7% in 1990, as shown in Table 1 below. The percentage share of the primary export, cocoa, has declined in each year from over 66% in 1986 to less than 40% in 1990.

TABLE 1

EXPORTS FROM GHANA, 1986-90
in Millions of US Dollars
(% Distribution in Brackets)

	COCOA	TIMBER	MINERALS	ENERGY	NTE	TOTAL
1986	503 (66.3)	44 (5.8)	124 (16.3)	64 (8.4)	24 (3.2)	759 (100.0)
1987	495 (58.9)	90 (10.7)	159 (18.9)	68 (8.1)	28 (3.3)	840 (100.0)
1988	461 (51.6)	107 (12.0)	191 (21.4)	91 (10.2)	42 (4.7)	892 (100.0)
1989	408 (49.9)	81 (9.9)	186 (22.7)	107 (13.1)	35 (4.3)	817 (100.0)
1990	355 (39.8)	119 (13.4)	244 (27.3)	111 (12.5)	62 (7.0)	891 (100.0)

Source: NTE figures from GEPC; traditional exports from IBRD

B. Non-Traditional Export Products

In Ghana, NTE are described in three major categories: agricultural products, processed and semi-processed goods, and handicrafts. As shown in Table 2, NTE exports increased rapidly in all three categories from 1986 to 1990. The decline in 1989 was due primarily to reduced export revenues from fishing, because of smaller catches, and aluminum, because of plant rehabilitation at the major export producer. Processed and semi-processed goods represent a growing share of NTE, exceeding 50% in 1990.

TABLE 2

NON-TRADITIONAL EXPORTS
(million US $)

Major Categories of NTES	1986	1987	1988	1989	1990
Agricultural	17.8	18.8	27.1	21.2	28.8
Processed & Semi-processed	6.0	9.1	15.2	13.4	33.1
Handicraft	0	.1	.1	.2	.6
Total	**23.8**	**28.0**	**42.4**	**34.8**	**62.4**
% of Total Exports	3.2%	3.4%	4.8%	4.3%	7.2%
% Distribution					
Agriculture	74.9%	67.2%	63.9%	61.0%	46.2%
Processed & Semi-processed	24.9%	32.6%	35.9%	38.5%	53.1%
Handicrafts	.1%	.2%	.2%	.6%	.7%

Source: Ghana Export Promotion Council

The primary agricultural exports are fish and fish products (tuna, frozen fish, prawns, lobsters, etc), followed to a much lesser extent by horticultural products (principally pineapples, yams, and vegetables) and other agricultural products (including kola nuts) as shown below in Table 3. Processed and semi-processed exports are concentrated in aluminum (aluminum sheets, plates and coils), common salt, wood (furniture, builders woodwork, plywood and charcoal), and metal scrap. Cocoa waste is not considered a non-traditional export as of 1990.

TABLE 3

MAJOR NON-TRADITIONAL EXPORTS
(million US $)

	1986	1987	1988	1989	1990
Agriculture					
Horticulture	.5	1.0	1.6	2.5	5.0
Fish	14.6	14.7	21.1	13.2	21.6
Other	2.6	3.1	4.5	5.4	2.3
(Cocoa Wastes)	(2.1)	(2.4)	(2.9)	(2.2)	(0)+
Processed & Semi-processed					
Wood	1.5	2.1	3.3	3.8	5.5
Aluminum	.1	.7	6.1	2.5	9.8
Canned Foods	2.0	1.6	.5	.1	.1
Salt	.8	1.9	2.5	3.1	7.0
Other	1.5	2.7	2.8	3.8	10.6
Handicrafts	0	.1	.1	.2	.6

+ Cocoa waste is no longer considered a non-traditional export

Source: GEPC

C. Destination of Non-Traditional Exports

The European Community (EC) imported over one third of Ghanaian non-traditional exports in 1990 and almost one half in 1989, while industrialized countries together had a total of 44% in 1990 and 73% in 1989, as shown in Tables 4 and 5 below.

TABLE 4

DESTINATION OF GHANA'S NON-TRADITIONAL EXPORTS, 1986-1990*
(Provisional in thousands of US $)

DESTINATION/COUNTRY	1986	1987	1988	1989	1990
Total Non-Trad. Exports	**23,762**	**27,964**	**42,346**	**34,720**	**62,342**
Of Which EC: Totals	**7,369**	**11,197**	**12,443**	**16,872**	**23,026**
United Kingdom	1,737	3,040	4,978	5,831	7,131
Spain	1,301	2,420	1,501	2,427	5,951
France	15	296	168	1,741	3,009
W Germany	143	601	1,114	2,129	2,586
Holland	4,162	4,444	3,970	3,767	2,293
Belgium	5	250	190	469	1,226
Italy		125	410	415	733
Others	5	22	111	93	97
Other Developed Countries: Totals	**13,903**	**12,332**	**9,322**	**8,393**	**4,442**
USA	13,783	11,912	8,729	7,220	2,776
Switzerland	107	380	458	1,050	1,263
Others	13	40	135	123	403
ECOWAS: Totals	**1,574**	**3,723**	**7,411**	**5,202**	**13,312**
Niger	165	755	811	1,345	3,456
Togo	361	633	920	808	3,150
Cote D'Ivoire	7	690	3,517	624	2,840
Burkina Faso	460	698	849	1,007	1,374
Nigeria	519	818	1,105	938	1,171
Benin	35	114	117	47	809
Others	27	15	92	433	512
Other African Countries: Totals	**0**	**0**	**187**	**234**	**398**
Other C'tries: Totals	**916**	**711**	**12,983**	**4,018**	**21,165**
Cuba			1,029	614	9,448
Puerto Rico			5,833		8,062
Las Palmas			5,498	3,115	3,156
Others	916	711	623	289	498

* May not add due to rounding

TABLE 5

DESTINATION OF GHANA'S NON-TRADITIONAL EXPORTS, (1986 - 1990)*
(Percentage Distribution)

DESTINATION/COUNTRY	1986	1987	1988	1989	1990
Total Non-Trad. Exports	**100**	**100**	**100**	**100**	**100**
Of Which EC: Totals	**31**	**40**	**29**	**49**	**37**
United Kingdom	7	11	12	17	11
Spain	5	9	4	7	10
France	-	1	-	5	5
W Germany	1	2	3	6	4
Holland	18	16	9	11	4
Belgium	-	1	-	1	2
Italy	-	-	1	1	1
Others	-	-	-	-	-
Other Ind: Totals	**59**	**44**	**22**	**24**	**7**
USA	58	43	21	21	4
Switzerland	-	1	1	3	2
Others	1	-	-	-	1
ECOWAS: Totals	**7**	**13**	**18**	**15**	**21**
Niger	1	3	2	4	6
Togo	2	2	2	2	5
Cote D'Ivoire		2	8	2	4
Burkina Faso	2	3	2	3	2
Nigeria	2	3	3	3	2
Benin	-	-	-	-	1
Others	1	1	1	1	1
Other African C'tries: Totals	**-**	**-**	**-**	**1**	**1**
Other C'tries: Totals	**4**	**3**	**31**	**12**	**34**
Cuba	-	-	-	2	15
Puerto Rico	-	-	14	-	13
Las Palmas	-	-	13	9	5
Others	4	3	1	1	1

* May not add due to rounding

The principal reason for the decline in percentage terms of shipments to industrialized countries in 1990 relates to a sharp drop in shipments of tuna fish to the United States. If Puerto Rico were classified with the United States, it would increase the developed country share by another 13% in 1990 and 14% in 1988. Exports to Puerto Rico were principally tuna fish. The main industrialized importing countries in 1990 were the United Kingdom (11%), Spain (9%), France (5%), the United States (4%), West Germany (4%) and Holland (4%). In Africa, NTE trade centered on the Ecowas region (21%), with the primary importing countries being Niger (5%), Togo (5%) and Cote d'Ivoire (5%). While the Ecowas countries received a wide variety of products from Ghana, salt made up more than one half of these exports, and virtually all Ghanaian salt exports went to Ecowas countries. Among all countries, Cuba received the single largest share of Ghanaian exports in 1990 (15%, almost totally aluminum products), but much smaller amounts in other years. The only other non-African developing area that imported more than 5% in each of the last three years was Las Palmas, importing mainly frozen fish, presumably for import to or re-export from Spain.

D. Number of Non-Traditional Exporters

A total of 1,729 exporters exported 163 products in 1990, compared with 1,381 and 167 respectively in 1989. Exporters of agricultural products totaled 668 in 1990, semi-processed and processed product exporters were 824, and handicrafts exporters 257. Less than 350 or 20% of exporters had sales exceeding US$10,000 in 1990, which indicates that a large proportion are not very active exporters. Less than 70 exporters shipped goods valued in excess of US$100,000. These exporters shipped over 92% of all NTEs in 1990. Over 150 exporters of salt were listed as making shipments in 1990, including 65 that each made shipments totaling more than US$10,000; 13 of 61 yam exporters and 25 of 57 pineapple exporters made shipments of over US$10,000. In most of the major NTE products, a few exporters (1-12) dominate in terms of shipments and the remainder generally export relatively smaller amounts.

Table 6 indicates the concentrations among exporters in different products by showing the number of exporters for products where sales of over US$25,000 were registered in the first six months of 1991.

TABLE 6

EXPORT PERFORMANCE OF SELECTED NON-TRADITIONAL EXPORTS FOR THE PERIOD JANUARY - JUNE 1991 *

PRODUCT	NO OF EXPORTERS	VALUE IN MN US DOLLARS
Non-Trad. Products: Totals	**1289**	**25,872**
OF WHICH		
Agricultural Products	592	13,606
Processed & Semi-Processed	637	11,850
Handicrafts	60	416
Agricultural Products: Totals	**592**	**13,606**
OF WHICH		
Horticultural Products: Totals	**204**	**3,653**
OF WHICH		
Pineapples	42	1,959
Banana/Plantain	29	86
Coconut	1	185
Assorted Vegetables	8	35
Yams/Cocoyam	51	1,369
Fish & Fish Products: Totals	**150**	**8,426**
OF WHICH		
Tuna	8	4,345
Frozen Fish	20	3,367
Lobster/Shrimp/Prawns	44	507
Smoked Fish	68	175
Shark Fins	5	32
Game & Wildlife: Totals	**29**	**71**
Other Agric.Products: Totals	**206**	**1,455**
OF WHICH		
Kola Nut	19	249
Assorted Food Items	104	1,162
Processed & Semi-Processed Products: Totals	637	11,850
OF WHICH		
Wood & Wood Products: Totals	**23**	**2,422**
OF WHICH		
Furniture & Parts	7	1,986
Builders Woodwork	8	66
Plywood	7	367

TABLE 6 CONTINUED

EXPORT PERFORMANCE OF SELECTED NON-TRADITIONAL EXPORTS FOR THE PERIOD JANUARY - JUNE 1991

PRODUCT	NO OF EXPORTERS	VALUE IN MN US DOLLARS
Aluminum Products: Totals	**16**	**1,637**
OF WHICH		
Alumn. Sheets/Plates & Coils	2	1,351
Alumn. Household Utensils	14	285
Common Salt	122	2,148
Metal Scraps (non-ferrous)	22	1,211
Processed Natural Rubber	5	1,819
Lime Juice/Oil/Waste	1	97
Palm Oil	36	445
Canned Foods, Beverages Etc: Totals	**11**	**35**
OF WHICH		
Palm Nut Cream Soup	6	26
Other Processed & Semi-Processed Products: Totals	**401**	**2,035**
Gari	40	92
Tobacco	2	112
Asbestos Sheets	7	27
Soap (Sunlight)	1	598
Vehicle Parts	46	87
Primary Cells/Batteries	29	189
Gauze Bandage	28	30
Nitrous Oxide Gas	39	461
Polytene Rolls	11	41
Secondhand Clothing	39	82
Ball Point Pen	4	78
Handicraft Items: Totals	**60**	**416**
OF WHICH		
Straw Products	9	58
Kente Cloth/Strips/Bookmarks	31	102
Assorted Handicrafts	1	216

* Includes all products with sales exceeding US$25,000 in the six months period. May not add due to rounding.

SOURCE: GEPC

E. Prospects for Non-Traditional Exports

NTE exports increased by 123% in the 1988-1990 three year period and exceeded the total revenues projected for the period in the 1988-1990 three year plan by 16.3%. Targets were not reached for several of the major agricultural products (except marine products) and wood products, but growth in most manufactures exceeded targets (principally aluminum and salt). Despite this growth, the objective of non-traditional exports reaching 15% of total exports was not realized, as traditional exports also grew rapidly (especially the 'extractive industries' gold and timber). Primary reasons cited for not meeting targets in some products included production capacity/storage problems, insufficient credit to make improvements, and inadequate working capital.

The new Medium Term Plan for Non-Traditional Export Development (NTE-MTP), 1991-1995, continues the objective of the former plan to effectively diversify the export base of Ghana and contribute a significant percentage of total exports. Diversification is defined as having occurred when, in a given year, non-traditional exports contribute 15% of total annual merchandise exports, the share of the 12 leading commodities is reduced from 85% in 1990 to 70%, ana the number of registered exporters is doubled from the current level of about 1,000. The plan sets the following targets for the five year period, as set forth in Table 7.

TABLE 7

PROJECTED NON-TRADITIONAL EXPORT EARNINGS, 1991-1995
(In millions of U.S. Dollars)

Export	1991	1992	1992	1994	1995	Total	%
Agriculture	37.4	52.4	73.8	103.4	144.9	411.9	43%
Manufactures	48.0	68.7	96.1	134.6	187.7	535.0	56%
Handicrafts	0.7	1.0	1.5	2.2	3.0	8.4	1%
Total	86.1	122.0	171.5	240.1	335.6	955.3	100%

Source: GEPC, NTE-MTP, 1991-1995

The NTE-MTP sets ambitious growth rates of about 40% per annum for agriculture and manufactures and 50% annually for the first 3 years and 40% for the next two years for handicrafts, as shown in Table 8.

TABLE 8

GROWTH RATES PROJECTED FOR NON-TRADITIONAL EXPORTS, 1991-1995
(In Percent)

Growth Rates	1991	1992	1992	1994	1995
Agriculture	30%	40%	41%	40%	40%
Manufactures	45%	43%	40%	40%	40%
Handicrafts	51%	50%	50%	41%	40%

Source: GEPC, NTE-MTP, 1991-1995

Specific targets and strategies to achieve them have been set for major products, and the targets are generally thought to be realistic as long as the envisioned inputs are available, including access to working capital and production credits and to working capital guarantees. The implications of these projections on need and demand for credit are set out in Chapter IV.

III. EXPORT FINANCE SERVICES

In Ghana, several public and private commercial banks, three merchant banks and one specialized export finance institution offer financing services to exporters. The specialized export finance institution, the Export Finance Company (EFC), is 50% owned by public entities and receives government backing to raise funding resources. It is quite new, having been in operation for about 16 months, and only makes short term export loans. There are no specialized government programs to provide export loans, guarantees or insurance, similar to those operated in many developing and industrial countries. Non-traditional exporters, however, are eligible for short and medium-term funding or guarantees from several other programs operated in the BOG.

This chapter examines the export finance services offered by the commercial banks, merchant banks, the EFC, and briefly describes the other finance programs which could benefit the NTEs. In addition, the role of the insurance companies and the two discount houses to facilitate availability of export finance is discussed.

A. Commercial Banks

The delivery of export finance services by commercial banks to traditional or non-traditional exporters must be viewed in the context of the restructuring of the banks under the Financial Sector Adjustment Program begun in 1988. Since then, each of the commercial banks has experienced sweeping changes in organizational structure, management and operating procedures. Balance sheets have been massively restructured as non-performing assets, primarily from State Owned Enterprises (SOEs), were removed. Additional adjustment was made with the substitution of Government bonds for non-performing private sector loans, which each bank was required to turn over to a wholly Government-owned agency, the Non-Performing Assets Recovery Trust (NPART). Simultaneously each bank has been re-evaluating its lending policies and practices based upon a strict regimen of back-to-basics accounting, auditing and credit analysis.

The changes in the aggregate balance sheet of the commercial banking sector can be seen in Table 9. As intended by the restructuring, capital and reserves increased as a percentage of total assets and loans, from 9.8% and 23.9% as of year-end 1988 to 12.6% and 40.7%, respectively, as of year-end 1990. Total assets grew by C163.5 billion, or 71%, since 1988, but loans increased only by C23.2 billion, or 25%, over a comparable period. Liquid assets, in the form of cash and securities, expanded from 22.3% to 35% of total assets. Examination of loan to deposit ratios shows a similar trend, i.e., loans represent only 57.7% of deposits in 1990 compared to 80% in 1988. In short, the banks appear to be risk averse. It is in this context that non-traditional exporters are reporting a lack of adequate credit for their businesses.

TABLE 9

FINANCIAL CONDITION OF COMMERCIAL BANKS

Accounts and Ratio Analysis	**1988**	**1989**	**1990**
TOTAL LOANS (bn. cedis)	94.7	105.4	118.0
TOTAL ASSETS (bn. cedis)	230.8	286.8	394.3
CAPITAL & RESERVES (bn. cedis)	22.6	17.1	48.0
Liquid Assets/Total Assets	22.3%	39.8%	35.1%
Total Loans/Deposits	80.0%	67.9%	57.9%
Capital/Total Loans	23.9%	16.2%	40.7%
Capital/Total Assets	9.8%	6.0%	12.6%

Source: Bank of Ghana

Table 10 shows that bank credit to the export trade, (excluding bank credit for cocoa, timber marketing and minerals, but including credit for diamonds and gold marketed by the Precious Minerals Marketing Corporation) only reached 4.4% of total bank credit in 1990. More importantly, export credit as a percentage of total credit dropped from 5.1% in 1987 to 3.9% in 1988, and by 1990 was still below what it was in 1987.

TABLE 10

BANK CREDIT TO ALL SECTORS
(Millions of Cedis)

Year End Dec.	Credit to Export Trade (mn of Cedis)	Total Credit (mn of Cedis)	Percentage (Export Credit)	US$ eq. (mns)
1985	490.0	21,400.9	2.3%	8.2
1986	1,451.2	38,655.8	3.8%	16.1
1987	2,658.6	52,489.1	5.1%	15.1
1988	2,595.6	66,227.2	3.9%	11.3
1989	3,169.7	79,015.5	4.0%	10.5
1990	3,512.1	79,429.6	4.4%	10.2

Source: Bank of Ghana

* Rate Source: IMF Statistics in Cedis to the US$
1985=59.99; 1986=90.01; 1987=176.06; 1988=229.88;
1989=303.03; 1990=344.83

Notwithstanding the cedi-denominated growth in export loans from 1985 to 1990, the dollar equivalent declined from a high of US$16 million in 1986 to US$10 million in 1990 as a result of devaluation of the cedi in relation to the U.S. dollar.

While these figures do not show the precise amounts of credit to the non-traditional export sector, they indicate that (a) lending to NTEs has not been great, (b) the contraction of loans by the banks has kept lending to the export sector at levels below that existing in 1987 in terms of a percentage of total credit, and (c) the cost is higher and credit is less accessible for those exporters who must purchase imported inputs.

The largest bank in Ghana is the Ghana Commercial Bank (GCB), which controls half of the total deposits and loans in the system. Barclays Bank Ghana Ltd. (BBG) and Standard Chartered Bank Ghana Ltd. (SCB) are the next largest, followed by the Social Security Bank (SSB), the National Savings and Credit Bank (NCSB), the National Investment Bank (NIB) and the Agricultural Development Bank (ADB). The government has a majority share in all but Barclays Bank and Standard Chartered Bank, where the government owns 40%. The Second Financial Sector Adjustment Plan anticipates further privatization of banks over the next three years.

The Consultants interviewed members of senior management in each of these institutions except for the NIB. In addition, telephone interviews were conducted with U.S. banks active in Africa to determine their trade finance activities in Ghana. The results of the latter interviews are shown as Attachment "B."

1. Export Services

As shown in Table 11, each of the six commercial banks reported that it provided a standard menu of export finance services to their customers. Although banks may offer other, non-credit services to exporters, those services in Table 11 are most important in the context of facilitating payment for exports and access to credit.

TABLE 11

EXPORT FINANCE SERVICES PROVIDED BY GHANAIAN COMMERCIAL BANKS

Service	# Provide Service	# Do not Provide Service
Advise Export Letters of Credit	6	0
Confirm Export Letters of Credit	6	0
Export Documentary Collections	6	0
Pre-Shipment Working Capital Loans	6	0
Post-Shipment Financing	6	0
Foreign Exchange Facilities	6	0
Bankers Acceptance Financing	2	4
Project Financing	2	4
Non-Recourse Post-Shipment Export Loans	0	6
Advances Against Export Documentary Collections	3	3

a. Advising and Confirming Export Letters of Credit:

An export letter of credit represents the commitment of a bank in the buyer's country to pay the beneficiary of the letter of credit (the exporter), whether or not the actual buyer of the goods is able to pay. The issuing bank substitutes its creditworthiness for that of the buyer, and the exporter need only follow the terms and conditions stipulated in the letter of credit to be assured of payment for the products exported.

With respect to export letters of credit, Ghanaian banks act as "advising banks" or "confirming banks". In its capacity as advising bank, the Ghanaian bank collects a fee for notifying the beneficiary of the existence of the letter of credit, verifying the validity of the letter of credit, receiving documentary evidence of conformity by the exporter to the terms and conditions of the letter of credit, and paying the beneficiary when funds are received from the issuing bank.

In its capacity as confirming bank, the advising bank confirms a letter of credit, which means that it undertakes to pay the exporter even if the issuing bank fails to pay. Ghanaian banks, like all banks, charge a fee for accepting this risk.

Ghanaian banks say that generally they will confirm L/C's from any country. Several exporters reported that they experienced payment delays of up to 60 days on confirmed L/C's even though the Ghanaian bank was theoretically obligated to pay when the terms of the L/C were met. If payment had not been received from the issuing bank, the Ghanaian bank should still have paid within a reasonable time of no more than three business days. Delays in payment of confirmed letters of credit may relate to several factors; however, a number of exporters reported such delays when, allegedly, documents presented were in conformity with the terms and conditions of the confirmed L/C. There may be a number of reasons for this problem: the nature of

L/C reimbursement practices and procedures between the issuing bank, the confirming bank and possibly the Bank of Ghana; the technical understanding of letter of credit personnel as regards the negotiation and payment responsibilities of a confirming bank to the beneficiary of the L/C; other correspondent banking relationships that affect the transaction; and a possible misunderstanding of banking regulations by personnel in the confirming bank.

b. Export Documentary Collections

All the banks reported that they process export documentary collections for exporters. Usually this is a non-credit service. It involves the Ghanaian bank receiving, from its export customer, export documentation evidencing shipment of goods to a foreign buyer. The exporter instructs the bank in Ghana to send these documents to its correspondent bank in the buyer's country and to deliver the documents to the buyer, either against payment of the item, or, alternatively, to deliver the documents after the buyer signs the bill of exchange (the act of "acceptance" by the buyer to pay at a future date indicated on a bill of exchange). Once the buyer obtains the shipping documents, the buyer can then arrange to take delivery of the goods.

In considering the request of an exporter for pre-shipment financing or post-shipment financing from the commercial bank, export letters of credit and export documentary collections provide verifiable evidence of an export transaction. In the case of a letter of credit, the bank will know before shipment the terms and conditions under which the exporter will be paid. In the case of export documentary collections, the bank will know after shipment the terms under which the seller anticipates being paid. Just as importantly, this information gives the banks an opportunity to query the non-traditional exporter as to the details of the production process, critical inputs, the time constraints that may be encountered, the shipping schedule and finally the length of the anticipated payment period. All of this information affects the lender's opinion as to the reasonableness of repayment for any contemplated financing.

Three out of six commercial banks reported that they were prepared to advance funds against export documentary collections. One bank indicated that if a letter of credit arrived for an exporter, that it should automatically be willing to finance the transaction. Two banks advance 20 to 50 percent of the face amount of the letter of credit, and one bank will advance up to 100% of a sight letter of credit.

Two banks indicated that they receive "red clause" letters of credit for salt exporters. A "red clause" letter of credit specifically allows the advising/confirming bank to advance a certain amount to the beneficiary (usually less than 50% of the face of the letter of credit) against simple receipt prior to shipment. This is pre-shipment financing, the principal of which the issuing bank agrees to pay to the advising/confirming bank whether or not the exporter ships under the letter of credit. The bank advancing the funds usually carries the interest rate risk.

c. Pre- and Post-shipment Working Capital Loans

All six commercial banks said that they would do pre- and post-shipment working capital loans. The conditions under which they would provide these services vary by customer, but are affected by the conservative posture of each of the banks. The collateral and terms, size limitations and rates are noted below.

Pre-shipment working capital loans are usually done under lines of credit established on an annual basis. Disbursement is usually under an overdraft arrangement or against a promissory note. Basically pre-shipment loans are considered in the same manner as domestic short-term loan facilities. Only a few instances of transaction-based financing were reported, such as the red-clause L/Cs mentioned previously.

d. Project Financing

Project financing for non-traditional exporters relates to financing for facilities that would have a direct impact on the exporters' capacity to export. Two out of six banks said that they would do such financing. The decision to do so and the rates, terms, etc., would be reached on a case-by-case basis.

e. Bankers' Acceptance Financing

A bankers' acceptance is a bill of exchange (draft) drawn on and accepted for payment at a certain date by a bank. By signing its name under the word "accepted" and dating the signature on the bill, the bank accepts primary obligation to pay at maturity. Since the bank has this obligation, the holder of the draft can ask the accepting bank to discount the draft. A bank can hardly refuse its own obligation.

When an accepting bank discounts the acceptance, it is carried on the books of the bank as a loan. However, if the bank wants to fund the acceptance, it is possible, where a secondary market exists, to rediscount the acceptance, take in cash, and use the cash for other purposes until the maturity of the acceptance. At maturity, the bank must pay the holder of the acceptance and the customer, who requested that the item be discounted in the first place, must pay the bank.

Two of the six commercial banks said that they are creating bankers' acceptances. The acceptances are held in portfolio, however, and not rediscounted. It was reported that it is possible to rediscount the acceptances at the newly formed discount houses, but at the present time there is no rate advantage in doing so.

f. Foreign Exchange Facilities

Banks provide exporters with foreign exchange for purchase of imported inputs and hold foreign exchange retention accounts on behalf of the exporter. Retention restrictions apparently will be lifted soon, allowing banks and exporters full access to foreign exchange. Foreign exchange facilities are limited to spot transactions, an inter-bank market through banks and foreign exchange bureaus, and the auction held by the Bank of Ghana. All the banks participate.

2. Collateral and Terms

Liquid collateral for at least 100% of the loan is required by five out of six banks, with the sixth requiring 110% collateral. Liquid collateral was defined as cash, certificates of deposit, bonds, etc., but real property, particularly residential real estate in Accra would be considered. One bank specifically disallowed any advances against inventory or receivables.

No one does non-recourse post-shipment financing. This is because of the inability of the banks to quantify the risk associated with a foreign receivable and to recover bad debt in foreign jurisdictions. In the same vein, all banks mentioned that one of the biggest constraints they face in lending to NTEs is the general lack of credit information on a potential borrower and, where information does exist, the lack of a central clearinghouse for this information.

The maturities on borrowings were quoted at 90 to 180 days. One bank noted that roll-overs often extend maturities to one year.

3. Minimum/Maximum Loan Size and Rates

None of the commercial banks interviewed has a policy requiring a minimum size transaction. Three out of six banks noted the average size transaction was the equivalent of US$20,000 to US$50,000.

All of the commercial banks lend at various rates between a range of 21% to 30% per annum. For example, while it was reported that the rediscount rate at the BOG was 28% per annum, BBG reported lending to cash collateral customers at 21% p.a., at 22% p.a. for mortgage loans, 23% p.a. for unsecured domestic loans and 24% p.a. for unsecured export transactions. Banks are able to charge rates lower than those available at the Bank of Ghana because of blended costs of funds, the size of customers, and the desire to serve some customers better than others. Three other banks indicated that rates for agricultural loans are 25 to 26 percent per annum, but loans to NTEs are generally higher, and reach 30 percent. The banks report they expect to earn a spread of about 5% over the cost of funds.

4. Non-Traditional Export Finance Customers

When questioned about the number of NTE customers on the books of the bank, three respondents indicated between 25 and 50, with only one institution indicating the number to be above 200. The others were not sure because some of the lending may be occurring in remote branches for which they did not have current data available. This is only a small percentage of banks' customers and companies, and this compares with approximately 1,800 exporters registered with GEPC. The inference here is that only the largest and strongest NTEs are using the banking system to finance NTEs. In fact, the bank with the 200 customers indicated that this was to some extent a result of referrals from the Export Finance Company with whom they were working very closely.

All banks reported that they deal primarily with exporters of traditional goods. This business is well-understood and the participants are well-known to the banks. All the commercial banks indicated interest in financing non-traditional exporters, but almost all believed that few, in addition to existing clients, would be qualified for loans from the banking sector, other than from EFC.

B. Merchant Banks

There are three merchant banks in Ghana. The Consultants interviewed senior management at each. Ecobank Ghana Ltd. (Ecobank) is the newest. It was given permission by the Bank of Ghana to operate as a merchant bank in November, 1989 and began operations March 1, 1990. It has C900 million in paid in capital (US$2.4 million) and is owned 58% by Ecobank Transnational Incorporated, a holding company located in Lome, Togo, and five Ghanaian shareholders, (Ashanti Goldfields Corporation, Ghana National Petroleum Corporation, Ghana Reinsurance Organization, UAC of Ghana Limited and Accra Brewery Limited). It is reported that Ashanti Goldfields Corporation owns 20%, with the balance allocated among the other shareholders.

Continental Acceptance Limited (CAL), was incorporated in Ghana in March 1989, granted a banking license in March 1990, and commenced business on July 3, 1990. With slightly over C1 billion in paid in capital, CAL is owned by the International Finance Corporation (IFC), the Commonwealth Development Corporation of the U.K. (CDC), Africa Growth Fund of the U.S.A. and Vanguard Assurance Company Limited of Ghana. Merchant Bank (Ghana) Limited is the third and oldest of the merchant banks, having begun operations in 1972 as National Finance Merchant Bank Limited. The Government of Ghana has a 30% share, the National

Investment Bank 25%, State Insurance Corporation 15% and ANZ Grindlays Bank p.l.c., London owns 30%.

The merchant banks have not had to be restructured, and, due to a combination of conservative lending practices and young age, have not experienced the same level of loan problems as the commercial banks. The 1990 audited financial statements show CAL with a liquid asset to total asset ratio of 78.1%, loans to deposits at 35.2% and capital to total assets at 12.3%. Comparable figures for Merchant Bank are 49.0%, 46.5% and 11.4% respectively. Both institutions are profitable. Ecobank has not produced a statement as yet, although it is thought that it is equally well capitalized and liquid.

1. Export Finance Services

In addition to offering all the services available at the commercial banks noted in Table 11, the merchant banks are chartered to provide advisory services and manage money and capital markets activities. These activities include:

- structuring, underwriting, and marketing both public and private equity and debt issues,
- providing corporations with financial and technical advisory services to raise resources, define

appropriate capital structures and assist in the creation of prospectuses and other investment evaluation information,

- counselling and negotiating mergers and acquisitions,
- act as agent in arranging international equity investments and financing from foreign export credit agencies,
- provide direct short-, medium-, and long-term loans where client services warrant,
- provide leasing, hire-purchase and sale and lease-back facilities,
- buy and sell securities it has underwritten for the purpose of creating or assisting to maintain a market for such securities,
- engage in investment advisory and portfolio management services,
- act as registrar and custody holder.

While these activities are not specifically related to non-traditional exports, the ability of the merchant bank to take title to goods, to invest in other companies and manage transactions that commercial banks cannot, put them in a position to offer new services to exporters in general and to NTEs in particular.

a. Advising and Confirming Letters of Credit

The mechanics of advising and confirming letters of credit at a merchant bark are identical to those in the commercial banks. The receipt of export letters of credit provide opportunities for the merchant banks to provide pre- and post-shipment financing for exporters. CAL reports that they will do 90 to 120 day advances against red clause letters of credit, and they have done so for the salt exporters. They will also do back-to-back letters of credit.

The other merchant banks also advance against export letters of credit for up to 50% of the face amount of the letter of credit. There was no mention of back-to-back letters of credit at either Ecobank or Merchant Bank.

b. Export Documentary Collections

Export documentary collections services are offered at each of the merchant banks. CAL reports that 70% out of the transactions they see are done on the basis of 90-days, documents against acceptance. The others note that sight letter of credit payment terms are typical.

c. Pre- and Post-shipment Working Capital Loans

All three of the merchant banks reported a willingness to provide pre- and post-shipment working capital loans to exporters. Once again, concern was expressed for the lack of credit information on non-traditional exporters and a strong desire for a central clearing house for credit information. CAL indicated that they regularly checked with the GEPC for credit references and basic data. Cross-checking with other banks is common practice.

d. Project Financing

Project financing on a case-by-case basis would be considered by all of the merchant banks. They noted that they are in a better financial situation than the commercial banks to undertake such financing. For example, CAL indicated that it is considering financing the assembly of an aluminum extrusion factory, the machinery for which has been in the country for some time and paid for since the mid-1980s.

e. Bankers' Acceptance Financing

Like the commercial banks, the merchant banks said that they can create bankers' acceptances, but due to rate considerations, generally do not. Merchant Bank's financial statements showed

C1.3 billion in export bills outstanding as of year-end 1990, but these may be interpreted as collection items being held to maturity. The account "own acceptances" showed a zero balance. "Bills Discounted" in the investment category represent Bank of Ghana bills, or what we might call treasury bills.

f. Foreign Exchange Facilities

The merchant banks participate in the foreign exchange auctions held by the Bank of Ghana and provide the same foreign exchange services as the banks.

2. Collateral and Terms

Pre- and post-shipment financing by the merchant banks appears more flexible as regards collateral. They "take what they can get.". One mentioned that 20 to 40% might be adequate on some post-shipment financing. Liquidity of the collateral remains important because the ability to enforce a claim against real estate is difficult in Ghana. Assignments of proceeds of letters of credit, export documentary collections and, surprisingly, credit insurance policies issued by Ghanaian insurance companies have all been accepted as collateral in the past. It was noted, however, that there is a current moratorium on insurance companies issuing such policies, allegedly to allow the insurance companies to seek re-insurance markets for such coverage.

Terms of credit, other than project finance, are universally short, i.e., 90 to 180 days. Roll-overs have been experienced by all the merchant banks, however, which takes some credits out to a year.

3. Minimum/Maximum Loan Size and Rate

None of the merchant banks interviewed indicated that a policy existed to require a minimum size transaction, although reference was made to the maximum allowable under the law of 25% of paid in capital to any one borrower. One merchant bank indicated that this was an unfortunate law because the small size of most banks' capital required a large corporate customer to maintain several accounts in order to meet his financing requirements. This was viewed as inefficient for the customer because the merchant banks themselves are more relationship oriented and interested in providing good, fast service.

Two out of the three merchant banks characterized a minimum size transaction at US$50,000 equivalent. This is in accordance with their preference to lend to large accounts and avoid labor intensive business. One of the three indicated that because they do a fair amount of business with salt exporters, almost any size transaction is acceptable.

Rates vary by customer, but in general, are being quoted at 2.5 to 5.0 percent above the interbank market rates of 22 to 23 percent per annum. CAL indicated that they have quoted at rates 2 to 4 percent below the market on occasion. This is viewed by the Consultants as an indication of the competitiveness in the financial market, despite the overall high rate structure, and an indication of the merchant banks' ability to match fund loans.

4. Export Finance Customers

All of the merchant banks professed a preference for the larger, more bankable customers. Ecobank, as the newest merchant bank, reported that they only had three export credit customers, but that 10 to 20 exporters were using Ecobank services. Merchant Bank expressed no interest in working with NTEs in general, choosing rather to provide services to traditional exporters in products such as gold, timber, and manganese. Merchant Bank believes that because of its small staff size and the relatively labor-intensive nature of dealing with exporters in general and smaller, less experienced NTEs in particular, that concentrating on traditional exporters is a preferable strategy.

C. Export Finance Company

1. Legal Status and Organization

Established under the Companies Code in 1990, the EFC is owned by four private and four public entities, each of which has an equal 12 1/2% ownership share. For three years prior, the Development Finance Department (DFD) at the BOG with the GEPC had worked on its establishment. In fact, it was initially incorporated by the BOG in 1989. The four government stockholders are the GEPC, the State Insurance Corporation, the Social Security National Insurance Trust and Ghana Reinsurance Organization. The four private sector shareholders are Enterprise Insurance Company Ltd., Ghana Union Assurance Company Ltd., Vanguard Assurance Company Ltd. and Great African Insurance Company Ltd. Initially, a total of 20 financial institutions was invited to participate. The commercial banks and merchant banks refused to join due primarily to lack of available resources, the immediate concern with restructuring their operations and building their capital base, all of which made engaging in new activities seem inappropriate. It should be noted also that some of EFC's insurance company owners are also shareholders in the merchant banks.

The EFC is established as a limited liability company like totally private sector companies, subject to the standard provisions of the Companies Code. Provisions include a requirement that financial statements be produced and audited according to the regulations set out in the Companies Code. EFC's Board of Directors is to be made up of 2-5 members, and shareholders are limited to a maximum of 50. It is anticipated that EFC will become subject to regulation under the non-bank financial institution regulations that are being formulated.

A total of 15,000,000 no par value shares are authorized.

2. Characteristics of the EFC Export Loan Program

The EFC is authorized in its charter to undertake the following activities:

"a. To grant loans and/or provide other forms of credit to exporters.

b. To carry out business as a finance house and to issue and deal in commercial paper.

c. To raise loans for the purpose of financing exports.

d. To offer and accept guarantees in respect of export finance.

e. To carry out all functions and duties incidental or ancillary to the production of export commodities and export of non traditional products."

In the initial stages of planning, consideration was given to the EFC providing pre-shipment export finance (working capital) guarantees and post-shipment export credit insurance, or refinancing loans made to NTEs by banks. For several reasons the decision was made to offer short term pre-shipment export loans directly. Banks were not particularly interested in participating in the EFC. Many of the target exporters lacked banking relationships because they operated primarily in the informal sector, and as noted above, banks were not actively lending to NTEs so as to need refinance.

In addition, the government was not prepared to fund the program, and therefore the only option seemed to be to raise funds on the money markets. The most feasible funding mechanism was for BOG, through the Treasury, to float bills on the open market for EFC with the explicit guarantee of the BOG. Using this funding mechanism meant that the cost of funds in the open market was so high as to preclude refinance of bank loans as an option for EFC. The fact that most non-traditional exports from Ghana are sold on L/C, cash or very short term basis made post-shipment insurance or guarantees less immediately necessary than direct funding of pre-shipment needs. Also, EFC views offering guarantees to commercial banks as a conflict of interest with direct lending. Therefore, based on the apparently more pressing need for pre-shipment finance, EFC started with a short-term pre-shipment export loan program for non-traditional exporters.

EFC offers direct loans of 90-180 days to non-traditional exporters for specific transactions evidenced by confirmed export orders or export letters of credit. All loans are made in Cedis. Up to 100% of the costs of producing the export order can be financed, including purchase of raw materials, processing, transport and freight, packaging for producers and purchase/packaging/and shipping of goods for export by non-producers. The exporter must agree to use the loan exclusively for working capital in accordance with a schedule set forth in the loan application and agreement.

All exporters of non-traditional goods as defined by GEPC (which conforms to the definition adopted by the Export Sector Review Committee Report) are eligible for financing.

The exporter must agree to inform the importer about the arrangement and instruct the issuing bank to advise the credit in the joint name of the exporter and the EFC. Export proceeds must be received through the exporter's bank. The exporter must also agree to repatriate all foreign exchange earnings from the exports covered by the EFC credit immediately to Ghana in accordance with prevailing government regulations.

All loan disbursements and repayments must also be made through the exporter's bank. If the exporter does not have a bank, it will be referred to a bank by EFC in order to set up an account through which the loan can be disbursed, the export proceeds received and the loan payment made. EFC views bringing exporters into the formal financial system as one of its objectives. EFC also encourages exporters to register with GEPC (subject to taxation), and seek assistance of GEPC if needed.

The procedures employed by the EFC to grant a loan are quite straightforward and well designed to allow for timely processing of credit requests. The exporter fills out an application form, which may be submitted through the exporter's bank. The application requests information on the size and terms of the transaction, attaching appropriate documents confirming the export order(s).

Information requested on the exporter includes name/address, bank reference, number of years exporting, commodities normally exported, whether products are produced or purchased by the exporter, and the volume and value of exports in the last 12 months. Furthermore, the mode of payment for previous shipments, evidence that past orders were fulfilled, the amount and source of any financial assistance received, amounts currently outstanding, whether or not payments are overdue, and payment experience with importers in the past are also requested.

With respect to the importer, the application requests the name/address and bank reference(s), how long the exporter has done business with the importer, and the volume and value of previous shipments. Details to be provided on the current order include the volume to be shipped, value, mode of payment, latest shipment date, amount of any prepayment received, the balance due, and percentage of proceeds to be repatriated. The loan purpose is detailed in the following categories, as applicable: purchase of commodities, transportation, processing, packaging materials, packing and handling, freight charges/duties, documentation, and rates and taxes.

After receiving the application, the EFC checks with the buyer to determine if the order is real and confirmed. The EFC loan officer prepares a loan recommendation form which summarizes key information from the application, incorporates information on EFC's own experience with the exporter and that which has been obtained from banks and others on the exporter's payment record and reputation. The EFC explicitly asks bankers and industry associations or other exporters in the same field about the credit and export performance of the applicant. An unsatisfactory report from a successful industry source is taken as a serious indication that the loan should not be granted. Recommendation by associations and successful industry "leaders" has proven to be a good indicator of export and credit performance.

The EFC investigates the order carefully to determine whether or not it is reasonable for the exporter to produce and ship the order and for the importer to pay for the order. The breakdown of costs is also checked for reasonableness. EFC expects repayment to occur from proceeds of the export sale, but also looks to other sources including personal guarantees of "leaders" and associations of exporters for support. Unpledged collateral is rarely available.

Financial statements are not required, but are analyzed if available, which is the case for all registered companies. For most applicants, either the financial statements do not exist or they are rudimentary or inaccurate so that they are not useful. EFC perceives that it is better to obtain information directly from the exporter and finance specific transactions, than to make exporters incur costs for accounting assistance that may not be particularly useful to the exporter or EFC.

Based on the analyst's recommendation, the Managing Director approves loans up to C10-20 million, and recommends loans in larger amounts to a three person loan committee made up of directors.

3. Export Loan Activity

In 14 months of active lending operations EFC has made loans totalling C 6,739.5 million (US$ 17.7 million at C380 = US$ 1) to a wide variety of exporters. A total of 834 transactions to 375 exporters were financed.

Lending activity through September, 1991, is summarized in Table 12.

TABLE 12

SUMMARY OF EFC LENDING BY CATEGORY, AUG.1990-SEPT.1991

Commodity	Exporters		Amount Disbursed		
	No.	%	Mn.Cedis	Mn.US$*	Percent
Processed & Semi-Processed	238	63.5%	4.745.2	12.5	70.6%
Agricultural Products	114	30.4%	1,798.5	4.7	26.6%
Handicrafts & Batiks	23	6.1%	195.7	0.5	2.8%
Total	**375**	**100.0%**	**6,739.4**	**17.7**	**100.0%**

* At one US$ equals 380 Cedis

Source: EFC

In slightly over a year, the EFC has supported an impressive number of exporters. While actual figures from banks are not available as to the number of non-traditional exporters assisted, discussions indicate that the banks and merchant banks combined did not assist as many exporters as the EFC. Relative support to non-traditional exporters is discussed at greater length in Chapter V which evaluates the efficiency and effectiveness of export financing services in Ghana.

Products that EFC has financed include salt, scrap, kola nuts, yams, fruits, seafood, furniture, garments, and handicrafts. A list of products and amounts financed or breakdown by sectors of outstanding loans was not provided. Information provided by Bank of Ghana suggests that the major recipients of EFC credits were as shown in Table 13.

TABLE 13

MAIN PRODUCTS FINANCED BY EFC, AUGUST 1990 - SEPTEMBER 1991

Commodity	Loan Disbursements		
	Mn. Cedis	Mn. US$	%
Salt	3,085	8.1	47%
Scrap Metals	722	1.9	11%
Yams	217	0.6	3%
Wooden Pallets/Furniture	156	0.4	2%
Medicinal Plants	69	0.2	1%
Pineapples	24	0.1	-
34 Miscellaneous Items	2,467	6.5	38%
Total	**6,739**	**17.7**	**100%**

Source: Bank of Ghana

While the aggregate loan disbursements above suggests a concentration in salt, there is no indication of concentration of outstandings based on available information. The fact that payment for salt is received on delivery suggests that loans may be repaid on a very short term. However, available information does not allow for conclusions to be drawn with respect to whether or not concentrations exist in any particular sectors or with particular exporters that could be considered detrimental to the EFC if payment is not made or delayed.

EFC estimates that 50% of the value of trade it has financed is in the sub-region. The suggestion was made that such exports are under-reported in the GEPC export statistics.

The average size of a loan is now estimated to be about C10-15 million. EFC is trimming down amounts requested to reflect manageable production and shipment capacity of the exporter. Instead of financing an entire order, each shipment will be financed separately. EFC works closely with the exporter to schedule production and shipments that are feasible for both the exporter and foreign buyer, as well as help assure EFC of timely repayment. To help prevent exporters from using export proceeds for other purposes than loan repayment, EFC is encouraging exporters to repay the loan, assuring them that they will immediately receive another loan if the first was paid as agreed. EFC is attempting to inculcate the habit of paying loans on time through this tactic.

EFC indicates that it initially lent on 90 day terms but found that at least 180 days was required as exporters often take longer to produce quantities of goods required for shipment.

Also, transport, packaging and other problems slow the shipment and payment process. Examples include lack of aircraft due to the Gulf War, and slow payment for products on consignment.

As of June 30, 1991, outstanding advances totaled C3,878.1 million (US$ 10.2 million) or about 74% of the total amount disbursed over an eleven month period. While this indicates that loans are being repaid, the amount outstanding also is 143% of the amounts disbursed in the first half of 1991. This suggests that the average loan is outstanding over 180 days. EFC stated that about 80% of the portfolio is current and that the remaining 20% is past due up to 180 days. However, EFC believes that the entire amount past due will be paid without recourse to calls on collateral, guarantees, etc. Absent an aging of receivables and an evaluation of the quality of receivables, the potential for repayment or loss associated with past due accounts cannot be evaluated.

EFC has sought to obtain security in various forms to improve its risk position. The non-traditional exporters that approach EFC rarely have unencumbered collateral to pledge, and key man insurance was found not to be particularly relevant. According to EFC, transaction based financing seems to offer the greatest security, combined with investigating the past performance of the exporter with respect to credit and exporting. Formation of associations and guarantees of "leaders" (persons of substance in the community or industry) have proved useful in evaluating credits, as well as in improving prospects for timely repayment. Good experience was reported in forming groups of ten exporters with a substantial leader who could vouch for the honesty and capacity of the others.

EFC is working closely with Social Security Bank (SSB), primarily because of a belief that it shares a similar view towards assisting NTEs, and the international department and branches of SSB are particularly cooperative. As a result, EFC refers clients to SSB. Approximately 50% of EFC clients bank with SSB. EFC maintains accounts with SSB, and both SSB and EFC consider SSB to be EFC's bank. EFC also works with GCB, NIB, Barclays and more recently ADB. EFC does not expect to work with every bank in Ghana given limited EFC staff resources. However, any bank's exporter client is welcome to approach EFC.

4. Organization

The EFC is directed by an eight member Board of Directors representing each of the shareholders, and the head of the DFD at the BOG as an ex-officio member. Day to day operations are conducted by the Managing Director. As noted above, a loan committee made up of three directors recommends on the larger credits.

EFC is operating with a total staff of 16 persons, and expects to increase staff to over 20 after year end. The Managing Director and key professional staff are seconded from the BOG to EFC. They retain their salaries and benefits as if they worked for BOG. However, the EFC assumes the full costs of salaries and benefits. The more junior professionals are university graduates that have some bank training, and learn about export finance on the job.

EFC occupies orderly, well-maintained offices on one floor of a multi-story building within Accra. No branch locations have yet been established.

A manual record-keeping system for accounting and management information purposes is maintained. Seven-month financial statements through December 31, 1990 were audited by Pannell, Kerr, Foster Chartered Accountants. The statements were found to be satisfactory, with no exceptions noted. Financial statements for internal use are prepared quarterly.

5. Finance

Highlights of the EFC Balance Sheets as of December 31, 1991 and June 30, 1991 are shown in Table 14.

TABLE 14

EXPORT FINANCE COMPANY BALANCE SHEET
as of December 31, 1990 and June 30, 1991

	31/12/90	30/6/91
Bank and Cash Balances	1.5	130.9
Net Accounts Receivable	2,134.6*	3,849.9*
Stocks	.8	.7
Total Current Assets	**2,451.8**	**3,981.5**
Fixed Assets	32.8	43.1
Total Assets	**2,484.6**	**4,024.6**
Accounts Payable	.9	29.7
Bills Payable	2,335.4	2,262.8
Taxation	10.2	45.0
Total Current Liabilities	**2,346.5**	**2,337.5**
Loans		1,490.0
Total Liabilities	**2,346.5**	**3,827.5**
Capital	120.0	120.0
Income Surplus	18.1	77.1
Net Worth	**138.1**	**197.1**
Total Liabilities & Net Worth	**2,484.6**	**4,024.6**
Liabilities: Net Worth	17:1	19.4
Advances: Net Worth	15:1	20:1
Advances: Borrowed funds	0.9:1	1:1

* Of which Advances total C2,120 million at Dec 31, 1990 and C3,838.1 million less 38.8 million provision at June 30, 1991.

a. Equity

Shareholders initially capitalized EFC at C120 million (US$ 315,800) or C15 million (US$39,500) per shareholder. This compares with the C1 billion (US$2.6 million) initially contemplated when the EFC was in the planning stage.

All dividends have been foregone to bolster EFC resources. EFC informs that the shareholders have agreed to double the capital, each adding another C15 million. The additional capital is expected to be paid in prior to year-end.

b. Borrowings

The main source of loan funding support has been export finance bills issued on EFC's behalf by the Treasury, which carry the guarantee of the BOG. Currently, EFC is borrowing for 90 days, despite lending up to 180 days, due to the lower 90 day borrowing rates. The differential is perceived as quite important given the high cost of this borrowing source which makes up most of EFC's funding base. EFC has been able to roll over bills regularly, and no change is anticipated in the near term. EFC must provide evidence to BOG of loan commitments and export orders and/or L/Cs backing the transactions financed, to support issuance of the export bills. Proceeds from bill issues are usually received within one to two weeks of request to BOG.

At June 30, 1991, EFC had C2.384 billion in export finance bills (less unexpired discount of C.122 billion) outstanding, and in addition had C1.340 billion outstanding to the Bank of Ghana representing BOG holdings of export finance bills converted on maturity into a loan.

In addition, EFC has obtained C200 million (C150 million outstanding at June 30, 1991) in loan funds from the Ministry of Trade and Tourism (MOTT). The terms and conditions of the MOTT and BOG loans were not made available, but presumably are for longer terms and lower rates than the export finance bills.

To support longer term funding needs for production credits, EFC is accessing several other programs such as the Rural Refinancing Credits funded by IDA funds and managed at the BOG. This program has low cost funds available to the exporter and an adequate spread to EFC. Up to 80% of the value of the loan can be financed for one year. EFC assumes the credit risk.

EFC apparently will be managing the Austrian Schilling 100,000,000 Import Support Programme for Non-Traditional Exports. Funds are to be used primarily to buy Austrian goods that are to be used in the production of non-traditional exports from Ghana. Eligible commodities are expected to be in the wood processing, food processing, packaging, and small scale mining areas, as well as other non-traditional products. Eligible firms will be companies with recent successful export experience, good credit standing with bankers and an assured potential market. The investments should be in areas that will generate a high level of foreign exchange and employment. The facility will pass through the BOG with EFC taking the credit risk and the exporters the foreign exchange risk. EFC will obtain a 5% spread, which is thought to be acceptable. Presumably, EFC will also assist its clients to access the Eximbank, Caisse Centrale, and ECGD tied credit facilities managed at the BOG.

EFC is fully utilizing its available resources, and realizes that additional resources are needed, in both equity and lower cost, longer term financing. EFC was highly leveraged at 19:1 as of June 30, 1991. The infusion of an additional C120 million of capital will improve that ratio to 12:1, but will not allow for substantial prudent increases in activity without further additions to capital.

c. Operating Results

While established in 1989, EFC began lending operations at the end of July 1990. The financial statements for December 31, 1990 reflect the establishment period and five months of lending operations, for a total of 17 months. In this period, EFC registered a profit, as it did in the first six months of 1991, as shown in the highlights of the profit and loss accounts in Table 15.

TABLE 15

EXPORT FINANCE COMPANY PROFIT AND LOSS ACCOUNT

		Inception-Dec.31,90 Mn. of Cedis	%		Jan 1-June 30,91 Mn. of Cedis	%
Income		173.5	100%		569.3	100%
Interest Expense		(142.0)	82%		(439.2)	77%
Net Interest Income		**31.4**	**18%**		**130.0**	**23%**
Less:						
Gen. & Admin. Expense		**(17.1)**	**10%**		**(19.7)**	**3%**
Salaries and Allowances	4.6			5.7		1%
Soc. Sec./Prov.Fund	.3			.5		-
Other Office Expenses	9.2			8.4		1%
Depreciation	3.0			5.1		1%
Provision for Loss					(38.8)	7%
Net Operating Profit		**14.3**	**8%**		**71.5**	**13%**
Other Income		14.0	8%		22.5	4%
Net Profit Before Tax		**28.3**	**16%**		**94.1**	**17%**
Provision for Tax		(10.2)	6%		(35.0)	6%
Net Profit after Tax		**18.1**	**10%**		**59.1**	**10%**

Interest income for the six months to June 30, 1991 totaled C569 million. At June 30, 1991, EFC had Export Finance Bills outstanding of C1,340 million and loans totaling C1,490 million. As would be expected, interest is by far the largest expenditure for EFC. EFC charges a spread of only 2% over the cost of obtaining funding through export bills. EFC considers this insufficient to compensate for risk and build reserves, but the generally high rates make greater margins unfeasible from the borrowers' perspective at the present time.

Salary costs are exceptionally modest. Other expenses also appear to be reasonable.

Excess funds are invested in government bills and other instruments through the discount houses. Other income is primarily from investments and has represented a substantial proportion of profits from the period prior to full operation.

In 1991, EFC is making provision for losses at a flat 1% of outstanding advances. They expect to recover virtually all of the sums lent to date, but realize some provision should be made until an appropriate amount can be set based on experience.

As a company registered under the Companies Code, EFC is subject to income tax. Many export finance organizations are exempted from tax due to their developmental role or government ownership. EFC has applied for tax exemption also.

D. Finance Support and Credit Guarantee Programs

1. Refinance and Tied Credit Programs

Several programs are available that could assist NTEs with their financing requirements, particularly for purchase of needed equipment to increase or up-grade production capacity. Some programs have working capital components as well. Size and other program requirements for eligibility limit the usefulness of these programs to meet wide-spread needs of exporters. These programs are briefly described below.

a. Rural Refinancing Credits

The Rural Refinancing Credits are sourced from the International Development Association (IDA). Funds are passed through the Bank of Ghana to eligible financing intermediaries. The Export Finance Company was recently qualified.

These funds are provided at concessionary rates to the intermediary, and through the intermediary to the borrower, including an adequate spread to the financial intermediary.

Refinancing can be for up to 1 year and for up to 80% of the loan, but the financial intermediary must pay at maturity, whether or not the lender gets paid, and hence, the intermediary carries the credit risk.

b. Tied-Credit Facilities

i. COFACE

The Compagnie Francaise d'Assurance pour le Commerce Exterieur (COFACE) provides commercial and political risk insurance for short, medium or long-term loans made by French banks and exporters. This program is intended to facilitate French exports to Ghana and is available through the Banque National de Paris. Loans insured by COFACE are refinanced and discounted by the French state through Banque Francaise du Commerce Exterieur. Rates are at the OECD rate current at the time.

ii. CCCE

Caisse Centrale de Cooperation Economique provides loans for the purchase of French exports, however, with the permission of CCCE, goods could also be imported from other countries. The Caisse Centrale, often joins other donor agencies to fill funding gaps in the LDCs. The facility in Ghana, for example, is 25% funded by the World Bank. OECD rates generally apply. The facility in Ghana has only been partially drawn (US$11.2 million out of US$25 million equivalent).

iii. ECGD

The Export Credit Guarantee Department (ECGD) is an agency of the U.K. Government that provides political and commercial risk insurance and guarantees to support exports from the U.K. Loans are made at OECD rates current at the time. The minimum eligible UK contract value is L30,000.

The 1990 allocation of L15 million has been fully drawn and the budget from 1991 is at L35 million.

iv. Austrian Schilling Facility

The Government of Austria has just established a 100 million Austrian Schilling (US$8 million) import support program specifically for non-traditional exporters. It is to be administered by the Export Finance Company and is a medium-term lending program designed to support the purchase of plant and equipment from Austria by non-traditional exporters, but reportedly has a working capital component.

Proposed criteria for the selection of eligible applicants are that the applicant be a Ghanaian enterprise; be an exporter of non-traditional products and/or contributes to export of non-traditional commodities; that activities are recent and that the exporter have a good track record of repatriating foreign exchange proceeds, and that the products have not been rejected by the buyer. The applicant should have a good bank credit rating and an assured market for future sales. Payment arrangements must be satisfactory, preferably by letter of credit. The investment should generate a high return in foreign exchange earnings and generate employment.

v. U.S. EXIMBANK

The Export Import Bank of the United States (EXIMBANK) has a US$30 million guarantee facility available through the Standard Chartered Bank New York Agency. It is available to finance the purchase of U.S. exports to Ghana. The program is a medium term lending program and carries an interest rate equal to the current OECD rate. It is reported that US$20 million remains available.

vi. ISAC

The Industrial Sector Adjustment Credit is an IDA credit facility designed to assist in raising productivity of the industrial sector of the economy, especially the private sector. It is available for imports of raw materials and spare parts and for rehabilitation, modernization and replacement of broken machinery.

vii. FUSMED

The Fund for Small and Medium Enterprise Development is a World Bank program administered by the Bank of Ghana. It is reported not as useful to NTEs as it is to traditional exporters. However, it excludes agriculture and funds are loaned through the banks, and the loan is based on their conservative and collateral intensive lending criteria. Loans are for medium-term purposes. Interest rates are at 20% for five years when denominated in cedis. The rate is 15% for U.S. dollars. The maximum loan is US$400,000.

2. Credit Guarantee Programs

a. Credit Guarantee at the Bank of Ghana

A single credit guarantee program is operated at the Bank of Ghana. In operation since 1975, the Credit Guarantee Scheme is intended for agriculture and small companies. The Program can guarantee an aggregate of up to 10 times the capital of C16 million, or C160 million. The guarantee is for 66.7% of the loan amount, not to exceed a maximum guarantee of C15 million.

The Program was originally intended to guarantee banks for financing exporters with firm orders, and for financing the imports of raw materials necessary to produce exports. With inflation and an artificial exchange rate during the period from 1975 to 1983, however, there was no incentive to export, so the Program was never implemented. After the beginning of the ERP in 1983 and a renewed interest in exports, BOG requested C2 billion to fund the guarantee scheme, but no funding was forthcoming, and the Program is functioning with C16 million in capital as noted above.

It was reported that several years ago, for a period of four years, not a single claim was paid under the Guarantee. This was due to administrative personnel problems. Back claims were cleaned up. However, this was hardly adequate to put confidence back into the Program. As a result the guarantee scheme is fairly inactive.

The Program is reportedly only being used by the Standard Chartered Bank, although any credit institution recognized by the BOG and maintaining a clearing account with BOG is eligible to obtain a guarantee. Other bankers interviewed, believed it to be overly bureaucratic, ineffectual, and they had little confidence that a claim would be paid. Several have had rejected claims in the past. Yet Standard Chartered expressed satisfaction with the Program.

Applications for the guarantee must be submitted with financial statements of the borrower, but in the case of small farm credit, the lender may simply provide a certification of creditworthiness of the borrower. Guarantees may be granted for up to periods of 15 years. The guarantee fee is 2% per annum on the face amount of the guarantee, payable in advance, either all up front or, by special arrangement, on an annual basis in advance. Advances made under guarantee commitments must be notified to the BOG within 15 days of disbursement. Notices of default must be made as soon as possible, but in any case, not later than ninety days from the date of expiry of the guarantee or when the advance became due for payment. In principle, claims payments are to be make within 30 days of receipt of a valid request. Subsequent to payment of the guarantee, the guaranteed lender remains responsible for recovery and is not allowed to write off the loan without permission of the Bank of Ghana.

The Program is managed by three people at the Bank of Ghana. It is reported that 65% of claims are in the agricultural sector, but willful defaulters are reported to be "educated" and not members of the "informal" economy.

Comments from the commercial bankers, merchant bankers, some government representatives and exporters alike found the guarantee program at Bank of Ghana fraught with difficulties, and warned against them in any scheme planned in the future.

These comments confirm the need for any future facility to do the following:

- Applications must be processed quickly in order to meet the urgency of international trade and the export process.
- The confidentiality of the transaction must be preserved in order to protect the exporter's customers, and part of this function requires that personnel be properly compensated for their task.
- Documentation must be streamlined.
- The allocation of the guarantee must be impartial and not become a source of power to the administering agency.
- There must be a desire to serve the customer, the bank applicant for the guarantee and the exporter, by the personnel of the administering agency.
- Information concerning the details of the program must be properly marketed to all eligible beneficiaries.
- Claims must be paid quickly and consistently, in accordance with known criteria.

b. A.I.D. Loan Portfolio Guarantee (LPG) Programs

The purpose of the LPG Program is to promote the development of small business enterprises by encouraging banks to increase the amount of credit extended to these businesses. During Fiscal 1991, A.I.D., through the Office of Investment, established an LPG Program in Ghana. Under the Program, a US$500,000 LPG facility for Continental Acceptances, Ltd. (CAL), a newly formed merchant bank, was approved. The A.I.D. guarantee covered up to 50% of the risk associated with losses on the principal amount of loans up to a mutually agreed limit. Assuming a US$500,000 guarantee limit, CAL could finance up to US$2 million in loans to support the export financing needs of NTE's. This assumes a leverage factor of four (4) based upon CAL's participation in the risk and a twice per year turn because of 180 day financing terms.

E. Insurance Companies

The insurance companies in Ghana can play a direct role in financing NTEs through investing and insuring. The insurance companies are the primary owners of the Export Finance Company. Their representatives sit on the loan committee of EFC for loans in excess of C20 million. They are also investors in the merchant banks and the discount houses.

The insurance companies are reported to have issued domestic credit insurance, as well as casualty insurance. Credit insurance has been written to facilitate domestic loans, bid and performance bonds, as well as to facilitate purchases of capital goods financed by loans from foreign credit agencies like the U.S. EXIMBANK. BOG has used the insurance to protect itself from payment default where it is guaranteeing loan repayment under tied-credit facilities. Insurance companies have earned fees of 4% on such business.

The experience of the insurance companies has not been good. Insurance for credit risk has not been profitable for the same reasons individual Ghanaian insurance companies have been unable to obtain reinsurance for credit risk, i.e., the risk is too high and volume is too low. From another point of view, NPART reports that they have met little success in recovering under guarantees from the insurance companies.

A representative of the Great African Insurance Company indicated that the insurance industry is interested in the future of the NTE sector because of the expectation of an increase in volume in profitable casualty business. Insurance companies are also exploring the possibility of joining together to obtain reinsurance on the international market for domestic credit insurance.

F. Discount Houses

Two discount houses have recently begun to operate in Ghana. Consolidated Discount House limited has been operating since 1987, and Securities Discount House Limited, has just begun operations in 1991. Consolidated Discount House is owned by eight Ghanaian banks and six Ghanaian insurance companies. The Securities Discount House is owned by the IFC, Continental Acceptances Limited and several foreign banks (38%).

The purpose of both is to undertake money market operations for the interbank market, and to institutionalize and channel funds in the financial system between fund surplus and deficit parties. Accordingly, they deal in Bank of Ghana bills, short-term government securities, bankers' acceptances, cocoa and mineral bills, commercial paper, negotiable certificates of deposit and, most recently, Export Finance Bills issued by the Bank of Ghana on behalf of the Export Finance Company.

Of significance to the financial sector is that the discount houses assume the role of intermediaries among banks and between the banks and the Bank of Ghana (BOG). This arrangement allows the BOG to assume the appropriate role as lender of last resort and better able to tend to the supervisory and monetary responsibilities of a central bank. The volume and rate of

Treasury bills offered by the BOG and placed through the discount houses affect the market and the availability of credit.

For example, the Bank of Ghana has, through the discount houses, offered 90 day bills at 32% in order to reduce liquidity in the system and reduce inflation in the economy. The banks with surplus funds come, on a daily basis, to the discount houses to invest these surplus funds, in instruments such as BOG Treasury bills at 32%. Banks needing funds also come to the discount houses. The banks needing funds, bidding through the discount houses, can only attract funds by bidding a higher rate than the BOG, and so, the interbank market rate rises to, say, 35%. Therefore, the incentive for banks to make commercial loans at any rate is reduced by the availability of low-risk BOG securities at high (32%) yields and the opportunity to make investments in the interbank market at even higher rates. Similarly, there is no incentive to rediscount bankers' acceptances at deep rediscount rates in the market.

Banks trade once each day at the discount house. The average size transaction is C2 to C5 billion. The daily volume is within a range of C7 billion to C30 billion, and the number of transactions is limited. The balance sheet of Consolidated Discount House Limited for year-end 1990 shows the aggregate of Bills Discounted, Negotiable CDs and Government Stocks to be C31.8 billion (out of total assets of C33.7 billion), up from

C7.5 billion (out of total assets of C9.3 billion) at year-end 1989. The significant growth evidences both the trust in the institution as well as the liquidity of the system. It also shows that there is room for competition. The anticipated arrival of Securities Discount House Limited was clearly mentioned in the 1990 Financial Statement of Consolidated. Consolidated noted a program to reduce administrative costs from 27.26% of operating income in 1989 to 19.80% in 1990, a clear indication of the focus on the bottom line.

While relatively new organizations, both appear to have highly competent, well-trained personnel that carry out their activities efficiently and in a professional manner. Consolidated Discount House Limited has 20 staff, including the Managing Director, General Manager, two dealers, two systems people and clerical staff.

As a repository of expertise in the investment and trading of funds, senior managers were asked to comment on the rationale of a refinancing facility and loan guarantee scheme for NTEs. Each responded that they would be able to manage any funds required by a refinancing scheme, and would consider doing so for a reasonable return. One manager commented that because of the amount of liquidity in the system at this time, concessionary rates would have to be offered to get any interest.

With respect to a proposed export credit guarantee, each indicated that the location of the scheme must be in the private sector to achieve timely and unbiased service. One suggested an insurance company, another a merchant bank.

IV. NEED AND DEMAND FOR EXPORT FINANCE SERVICES

A. Need for Export Finance: An Overview

The availability of credit at a reasonable price and on reasonable payment terms is an important element in the success of exporting firms. Credit is necessary at the pre-shipment stage to enable the exporter to meet working capital needs, to purchase, manufacture and pack the goods destined for export, as well as to meet administrative expenses and overhead requirements during the period prior to export. At the post-shipment stage, credit is required to bridge the gap between the shipment of the goods and the receipt of payment from the overseas buyer. Term finance is required to establish or increase export production capacity and improve product quality by up-grading technology, skills, packaging, etc.

The situation of Ghanaian non-traditional exporters with regard to accessing needed export financing described above is similar to that encountered in many other developing countries. Developing country exporters face several competitive disadvantages in obtaining pre-shipment export loans and in offering post-shipment credit to their buyers. First, the commercial banking sector in many developing countries is very conservative in the extension of credit and normally offers shorter terms and higher interest rates to their customers than their industrial country counterparts. This appears to be the case in Ghana. Second, because of their own size and because of risk perceptions, banks in developing countries frequently offer smaller amounts of credit to individual customers and insist on greater collateralization than in industrialized countries. This would appear to be true with regard to the commercial banks and to a somewhat lesser extent with merchant banks in Ghana. The EFC appears to be an exception which is more oriented to transaction based financing than to fully collateralized lending compared to many financial institutions in developing countries. Third, developing country banks are often less experienced and less well-connected internationally, and therefore, less willing to make export loans. Ghanaian banks lack correspondents in some markets and have limited lines of credit available where correspondent relationships exist. Lack of information about foreign buyers and markets may limit Ghanaian banks' willingness to support non-traditional exporters. Fourth, many developing countries strongly circumscribe the extension of export credits by commercial banks because of balance of payments considerations. This is not the case in Ghana at the present time, with the liberalized foreign exchange rules. However, the relatively low levels of capitalization of the restructured banks mean that the size of loans that can be made is circumscribed by regulations regarding maximum loans to capital and maximum loans to one borrower. Likewise, the conservative posture of banks resulting from the restructuring means that Ghanaian banks are less likely to assume lending risk than might otherwise be the case. Finally, exporters in developing countries are handicapped in obtaining credit because of the relative newness of many of these operations and their smaller average size relative to firms in industrial countries. This certainly appears to be true of Ghana.

A more extensive general discussion of the rationale and characteristics of export finance and guarantee programs is found in Attachment "C." The specific need and demand for export finance services for non-traditional exporters in Ghana is discussed in greater detail below.

Need for export finance in Ghana is estimated by relating the products, terms of sale and markets served to the norms prevailing in international trade and the experience of other countries as shown in Sections IV-B and IV-C which follow. Demand is characterized by analyzing the views of the exporters themselves and the service providers based on their experience and perceptions of what is required. These views, obtained through surveys of exporters and detailed interviews with exporters and bankers, are presented in sections IV-E and IV-F. Profiles of typical Ghanaian non-traditional exporters, detailing their export finance needs, are shown in Attachment "D."

B. Need for Export Finance: Characteristics of Non-Traditional Export Sales

The production cycle and normal payment terms on export sales are determining factors with respect to the need for export finance, and the specific type of financing that is appropriate. The need for various export finance services can be disaggregated in at least three different ways: by type of finance need addressed (pre-shipment, post-shipment, fixed investment), by repayment term (short-term, medium-term, long-term) and by type of documents utilized (advance payment, sight and usance letters of credit, sight and usance documentary collections, open account, consignment, etc.).

1. Type of Finance Need Addressed

Virtually all non-traditional exports require some pre-shipment finance while goods are being produced or accumulated by traders to fulfill export orders. Theoretically, the cost of all inputs can be financed, but lenders prefer not to finance the exporters' profit. There are three major input elements: imported inputs, domestic inputs and value added. Foreign exchange is required for purchase of imported inputs. Ghana's non-traditional export products require relatively small amounts of imported inputs, such as seeds, fertilizers, agricultural chemicals, and packaging materials. In most cases, these inputs are imported by other firms and the NTEs purchase them on the domestic market. Agricultural products require little import input, and the semi-processed/processed goods sector also uses domestic raw materials and labor to a large extent (e.g. wood and aluminum products, salt, etc.). Packaging is a fairly substantial import cost for some products (such as pineapple) and shipping may also represent a substantial portion of costs, which may require payment in foreign exchange. For some Ghanaian exports, however, especially fresh fruits and vegetables, sales may be made F.O.B. with the shipping paid by the buyer so that finance for shipping is not needed.

Post-shipment finance is required when exporters ship goods prior to receiving payment or extend credit to foreign buyers to allow them to pay after receipt of goods. Typically exporters want payment as soon as possible and buyers want to delay payment. Whether foreign buyers pay in advance, on receipt, or on deferred terms is a function of the payment terms typical for that product in world commerce and the competitive position of the buyer and exporter. Ghana's non-traditional export products are the type that are sold on very short terms, and they require very little post-shipment finance. The post-shipment finance needs for various products are discussed below under term of finance.

Exporters, bankers and government officials all agreed that financing for increasing productive capacity will be needed, especially as existing capacity becomes fully utilized. For example, more plantings of pineapple and other agricultural crops, as well as processing plants and storage facilities are needed. This need for project finance is the subject of the proposed venture capital facility and other tied credit facilities, and is being addressed elsewhere in USAID and other projects.

2. Term of Pre-shipment and Post-Shipment Finance

The term of pre-shipment finance needs depends on the amount of time needed to produce goods, prepare export orders and make shipment. Producers require longer financing periods than traders that purchase finished goods for export. Traders are likely to need financing for periods of 30-90 days. The profiles of exporters of various products presented in Attachment "D" indicate that 60 to 180 days is needed in most cases for pre-shipment needs. The manufacturers that must produce and then store goods as they are accumulated for shipment typically need working capital finance for periods up to 180 days. Handicraft producers have similar requirements. Exporters of agricultural products have needs for finance ranging from 60 days (marine products) to 90-180 days (for horticulture products). In some cases, an additional 30-90 days will also be required for post-shipment needs. However, post-shipment finance will rarely be needed separately from a pre-shipment credit. Sales of marine products on deferred documentary collection terms and of a limited amount of manufactures on usance L/C terms could be financed separately from the pre-shipment period.

Ghanaian non-traditional exports need little post-shipment finance except for periods of 30-60 days for goods on consignment (horticulture), some sales on a documentary collection basis of 90 days or less (e.g. marine products), and some sales in the region. However, it should be noted that payment delays of up to 30 days are common in transfer of funds from the buyer's country to Ghana. Bankers and exporters reported no export transactions for post-shipment credit terms longer than 90 days. The Bank of Ghana also restricts Letter of Credit terms to a maximum of 90 days. There is no indication that this constrains Ghana's exports from being competitive in world markets. It is not anticipated that Ghana will produce products such as capital goods in the near future that require medium- or long-term post-shipment financing.

3. Mode of Payment

Non-traditional exports from Ghana are sold using varying modes of payment. Unlike many developing countries, a substantial proportion of non-traditional exports appear to be made without letters of credit. Precise figures are not available, but the BOG notes that US$3.1 million of non-traditional products financed by EFC in the August 1990 to September 1991 period were sold on an L/C basis. These consisted of yams, scrap metal, wood pallets/furniture and medicinal plants. Salt and 34 miscellaneous items financed by EFC in the same period totaling US$14.6 million were sold on a cash on delivery or sight draft basis.

The specific product and market are the determining factors as to mode of payment for most non-traditional products. Exporters of horticulture products to Europe report most sales are made on a consignment basis, which means that finance is required for the period after shipment until payment is received. Kola nut exporters receive cash payments in advance or sell on consignment. Typically pre-shipment loans also cover the consignment sales period. Salt exporters receive payment in advance. Some handicraft exporters ship on sight drafts, others on sight L/C basis. Scrap metal exporters obtain sight L/Cs. Aluminum product exports also are typically sold on an L/C basis. Fish and marine products are sold on a documentary collection basis for up to 60 days.

In conclusion, the main need for working capital pre-shipment finance would seem to be primarily for local currency finance, for terms of 120 days or less, to support transactions against export orders or letters of credit.

C. Need for Export Finance: Projections for 1991-1995

The estimates of the requirements for pre-shipment and post-shipment finance by various time periods are summarized in Table 16. The percentages of products in each category needing a specific term were calculated by estimating the type and term of financing need for each of the NTE products for which projections were made in the NTE Medium Term Plan, and aggregating the needs for the three major categories of non-traditional exports. The percentages take into account the relative volume of different products in the category.

TABLE 16

ESTIMATED PRE- AND POST-SHIPMENT NTE FINANCE REQUIREMENTS BY TERM 1991-1995, IN PERCENT

Commodity	Days Pre-Shipment				Days Post Shipment			
	60	90	120	180	0	30	60	90
Agriculture	70%		30%		15%	25%	60%	
Manufacture		35%		65%	65%			35%
Handicrafts				100%		100%		

The portion of the export value in excess of costs (i.e. profit) normally cannot be financed. Absent any precise statistics, it is assumed that 15% of export value represents the exporter's profit. This is consistent with experience in other countries.

Financing is required for 100% of the costs associated with the exports, whether from the buyer (advance payments), supplier (in the form of trade credit) or from financial institutions or the resources of the exporter (self-finance). While no precise information is available on the amount of buyer and supplier financing available, Ghanaian exporters do receive some supplier credit from domestic suppliers, including agricultural chemicals and packaging materials. It seems clear that self-financing is the major source, given the low level of bank financing and the fact that surveys indicate that over 70% find a lack of working capital to be a constraint to Ghanaian exports. Almost all NTEs interviewed confirmed that access to financing was a problem for them. Based on a recent survey conducted by FWA in a developing country with a more developed financial system, exporters indicated that financial institutions supplied less than one third of needs, and that twice the amount of bank financing was needed. Therefore, based on experience in other countries and what is known about Ghana, it would seem to be reasonable that a maximum of 65% of costs of all non-traditional exports need financial institution financing. Also, this would be consistent with the fact that some exporters are not eligible for, or do not need, credit, and that in many cases less than 100% of costs are eligible for financing.

Using the export value projections contained in the NTE-MTP and the assumptions regarding the term and percentage of costs that need financing, the working capital export finance needs have been calculated, as shown separately for agriculture, manufactures and handicrafts in Table 17.

TABLE 17

WORKING CAPITAL FINANCE NEEDS FOR NON-TRADITIONAL EXPORTS IN AGRICULTURE, MANUFACTURES AND HANDICRAFTS
(millions of US$)

	1991	1992	1993	1994	1995	Total
AGRICULTURE						
Total Exports	37.4	52.4	73.8	103.4	144.9	411.9
Cost of Inputs	31.8	44.5	62.7	87.9	123.2	350.1
Bank Finance Need	20.7	29.0	40.8	57.1	80.1	227.6
Financing Outstanding						
Pre-Shipment	4.5	6.3	8.8	12.4	17.4	49.3
Post-Shipment	2.5	3.5	4.9	6.9	9.7	27.5
Total Funding Required for Agriculture	7.0	9.8	13.7	19.3	27.1	76.9
MANUFACTURE						
Total Exports	48.0	68.7	96.1	134.6	187.7	535.0
Cost	40.8	58.4	81.7	114.4	159.6	454.7
Bank Finance Need	26.5	38.0	53.1	74.4	103.7	295.6
Financing Outstanding						
Pre-Shipment	10.9	15.7	21.9	30.7	42.8	121.0
Post-Shipment	2.3	3.3	4.6	6.5	9.1	25.8
Total Funding Required for Manufacture	13.2	19.0	26.5	37.2	51.9	147.8
HANDICRAFTS						
Total Exports	.7	1.0	1.5	2.2	3.0	8.4
Cost	0.6	0.9	1.3	1.9	2.6	7.1
Bank Finance Need	0.4	0.6	0.8	1.2	1.7	4.6
Financing Outstanding						
Pre-Shipment	0.3	0.3	0.4	0.6	0.8	2.3
Post-Shipment	-	-	-	-	-	0.1
Total Funding Required for Handicraft	0.3	0.3	0.4	0.6	0.8	2.4

The total need for working capital export finance and the amount of resources required in the three categories is summarized in Table 18.

TABLE 18

NTE WORKING CAPITAL FINANCE NEEDS FROM FINANCIAL INSTITUTIONS 1991-1995
(millions of US$)

Commodity	**1991**	**1992**	**1993**	**1994**	**1995**	**Total**
Total Exports	86.1	122.0	171.5	240.1	335.6	955.3
Finance Need						
Agriculture	20.7	29.0	40.8	57.1	80.1	227.6
Manufacture	26.5	38.0	53.1	74.4	103.7	295.6
Handicraft	0.4	0.6	0.8	1.2	1.7	4.6
Total Need	**47.6**	**67.6**	**93.1**	**132.7**	**185.5**	**527.8**
Funding Requirement						
Agriculture	7.0	9.8	13.7	19.3	27.1	76.9
Manufacture	13.2	19.0	26.5	37.2	51.9	147.8
Handicrafts	0.3	0.3	0.4	0.6	0.8	2.4
Total Funding	**20.5**	**29.1**	**40.6**	**57.1**	**79.8**	**226.1**

The amount needed in 1991, US$47.6 million compares with US$17.7 million financed at the EFC from August 1990 through September 1991, and US$10.2 million outstanding at September 30, 1991, and the US$10.2 million credit made available to non-traditional exporters (including gold and diamonds marketed by the Precious Minerals Marketing Corporation) as of year-end 1990 by commercial banks. Using the EFC and bank figures as representative of available pre-shipment finance for non-traditional exports, more than half the need would appear to be met. As previously noted, the amount of bank financing in Cedis for non-traditional exports has increased, but in dollar terms is decreasing and as a percentage of total loans remains below the level attained in 1987. This suggests that the amount of bank financing may not increase commensurate with the growth in the need for export finance as non-traditional exports expand, unless banks can be encouraged to expand lending. Likewise, the EFC is fully utilizing its available resources and may not be able to cover additional financing needs without further funding support.

D. Demand for Export Finance: Exporter Surveys

The need for finance set forth above addresses the theoretical need for working capital needs of Ghanaian non-traditional exporters. This must be related to the demand for credit and other financial services by these exporters and to the perceptions of conditions under which the exporters could obtain these services.

USAID/Ghana contracted J.E. Austin Associates with a local consulting firm, Ghanexim, to conduct a survey of non-traditional exporters' perception of the policy environment, business climate, infrastructure, resources and business associations in mid-1991. A sample of 75 firms representing a wide range of non-traditional exporters were interviewed. Structured interviews were conducted using a questionnaire that asked a number of questions related to financial services for non-traditional exporters.

The survey concluded that exporters believed that credit was the main constraint to the export sector (85%), and 77% said that access to credit (local currency) was the main constraint to expanding export operations, while only 27% viewed foreign currency access as the main constraint. Apparently 73% stated that access to working capital is the most pressing operating constraint. Over one half (57%) rated the support from local financial institutions and capital markets as poor, 41% as satisfactory, and only 1% as excellent. Specifically, financial institutions were cited as constraining export operations most frequently due to high interest rates/fees and inadequate amounts of credit (49% and 48% of respondents respectively). This survey clearly identifies credit as a problem from the perspective of exporters. The survey did not provide detail as to the experience of exporters with banks, the reasons why access to credit was insufficient, or the specific terms and amounts of credit required.

Another survey of exporters, including non-traditional exporters, was conducted in August-September 1990. Thirty-five percent of the 160 firms interviewed surveyed were non-traditional exporters. Companies that were exporting cited "finance" as the main constraint, mentioning both export finance and working capital, as well as funding to recapitalize their firms. Non-exporting companies mentioned finance second after markets as the key reason for not exporting, referring particularly to need for long-term investment finance to develop export capacity. The survey concluded that realistic exchange rate policies are the most important factors to maintain the incentive for non-traditional export. Additionally, the conclusion was reached that the export finance issue needed to be addressed, but cautioned that many of those citing finance as a constraint may have lacked collateral to avail themselves of bank finance or may perceive a finance need that is not well thought out. With respect to the latter point, the study referred to a 1991 study of small-scale enterprises in a medium-sized town in Ghana by Aryeetey that found that most entrepreneurs could not indicate what they would do with the credit if it was immediately made available to them. A third recommendation was for longer term finance for development of non-traditional exports.

Neither of these studies addressed the specific nature of the export finance problem which was thought to be a major constraint by non-traditional exporters and firms that did not export. Interviews with exporters and financial institution representatives provide some insight into the particular financial needs of exporters.

E. Interviews with Exporters and Financial Institutions

Specific export finance issues were addressed by "Workshop on Diversifying Ghana's Exports: The Policy Implementation Challenge", attended by non-traditional exporters, representatives of the MOTT, Ministry of Finance and Economic Planning (MOFEP), GEPC, and USAID, sponsored by USAID/Ghana in September 1991. The most critical constraints to non-traditional exports identified at the workshop included the following finance issues: poor access by exporters to term finance and working capital from the public and private banking sectors; difficult collateral requirements and cumbersome procedures; and high cost of capital for exporters. A number of recommendations were made with respect to better access to finance. These specifically related to introduction of an export credit guarantee scheme, provision of working capital and term finance, reduction of financing costs and liberalization of foreign exchange retention and collateral requirements, and establishment of a venture capital fund.

In the interviews with exporters, lack of access to working capital and the high cost of bank credit were repeatedly cited as problems. The exporters that were unable to obtain sufficient working capital, from their perspective, cited as reasons the banks' insistence on 100% collateral or more, and specifically on liquid collateral (cash, certificates of deposit and marketable securities) or real estate (preferentially residential real estate in Accra), and the banks unwillingness to finance specific transactions or advance against export letters of credit. Banks were viewed as preferring to invest in high yielding short term government securities rather than making loans. From the exporters' perspective, banks are lending less as a result of new regulations and restructuring of their portfolios.

Several exporters complained of the high interest cost of bank lines of credit (and EFC loans), claiming that interest cost could make them non-competitive with respect to foreign competitors. Reference was made to the relative cost of off-shore financing compared to domestic interest rates. The cost of export finance seemed to be a particular issue at this time, but exporters also acknowledged that rates are declining and could be expected to decline further and become more compatible with international rates as, and when, the inflation rate is brought down in Ghana.

In more detailed discussions with exporters, it became clear that exporters which operate in the informal sector, as well as those with rudimentary accounting and financial knowledge, and those with market, production performance or loan repayment problems were experiencing difficulty obtaining finance from banks. Insufficient acceptable collateral was not the only issue. Several instances were also cited where banks refused to advance against letters of credit, or only advanced a small percentage of the L/C amount, citing lack of experience as reasons for refusal to make working capital available. Also, a number of exporters mentioned delays of 30 days or more (up to 60 days) in receiving payments under confirmed sight L/Cs. The latter is an unusual occurrence in international trade and suggests that banks lack correspondent relationships or are not always able to deal with their correspondents in a timely manner and are passing the payment delays on to their exporter clients.

When bankers were asked what problems they encountered in lending to non-traditional exporters, they most often cited lack of banking experience with the exporter, insufficient exporting or business experience to assure the bank that the exporter could perform, and lack of collateral. Several banks mentioned the possibility of diversion of funds by exporters that were not well known and/or did not have bona fide confirmed export orders. Banks seemed to be willing to consider financing non-traditional exporters and to be flexible on collateral requirements, for example, if an exporter was a known customer with an operating track record and a confirmed L/C. Those outside the formal sector are not perceived to be creditworthy for normal lending by Ghanaian bankers in general. They were considered either unbankable or only suitable for financing by EFC. A few bankers had experience lending to groups of small exporters, and suggested that this was one way to overcome the lack of financial discipline of the small exporter. Several also mentioned a perception by some borrowers (primarily small) that repayment is not required, particularly if the loan is from a government institution.

A number of bankers also noted that lack of credit information on loan applicants was an impediment to lending to the small and new to export firms in particular. Financial statements were perceived to be of little value unless they were audited, and credit and performance records clearly were more important in determining whether or not to consider lending.

In discussions with exporters, banks, EFC and other export service providers such as GEPC, problems with lack of information about market requirements and buyers, insufficient skills and technology to produce goods in the quantities required and infrastructure deficiencies, such as inadequate cold storage and insufficient transport (especially air and truck) capacity, were repeatedly mentioned as real constraints to NTE growth. Numerous specific examples were reported of instances where these types of problems prevented exporters from filling export orders or expanding their export business.

While pre-shipment credit was cited as an immediate financial need, exporters and financial institution representatives repeatedly stressed that these other issues also needed to be addressed. In addition, access to medium/long term finance to increase and up-grade capacity was considered by many to be a developing need as Ghanaian exporters increased sales and entered new markets.

F. Other Non-Credit Financial Services Required

Interviews with non-traditional exporters and financial institutions show that some exporters operating in the formal sector have the requisite financial and accounting, as well as export finance, knowledge to successfully obtain financing for their operations and export internationally on a competitive basis. Many others operating in both the formal and informal sectors do not. For these firms, accounting is rudimentary. Few appear to understand, or at least articulate, the cost structure of their activities. Few have the capacity to plan their financial requirements and transmit that information to lenders. Knowledge of export documentation and finance mechanisms appears inadequate for many, and as a result, delays in receipt of payment from buyers occur. These factors all contribute to limiting the access of non-traditional exporters to export finance services.

The GEPC, in its efforts to register and organize the NTEs through exporter associations and Export Production Villages, can assist with solving the problem of defining good projects, training potential NTEs and providing credit information. GEPC knowledge of the performance and credit capacity of particular exporters and exporter associations also assist lenders assess whether or not to make credit available.

While exporters concede that administrative procedures for exporting have improved, some areas of concern remain. Of the exporters that have tried to obtain a duty drawback, none had been successful. This suggests need to revamp the duty drawback system and/or its administration or to educate exporters about it. Despite vast improvements, some forms still present difficulties for some exporters.

The continuing liberalization of the foreign exchange regime is welcomed by exporters and bankers alike. Clearly, bankers see opportunities for additional foreign exchange business from their exporter relationships. As NTE business expands and larger volumes of imported inputs and equipment for increasing production are required that involve obligations in foreign currency, or Ghanaian exporters are required to provide post-shipment finance to their buyers in order to be competitive, a forward foreign exchange market will be needed to lessen foreign exchange risk.

As exporters enter new markets and obtain new buyers, it is likely that sales will increasingly be made on a documentary collection or open account/consignment basis with deferred payment terms, if Ghana is to be competitive on world markets. This will expose exporters to additional commercial, and possibly political, risks. Such risks can be lessened through use of export credit insurance, which is not available in Ghana.

A suggestion was made by several exporters in horticulture that some form of insurance be created to deal with non-acceptance risk by the unscrupulous buyers that refused goods stating that they were not as specified in the order. Such non-acceptance insurance coverage can be offered with export credit insurance, but not usually with very perishable products where it is difficult to determine if goods were unacceptable upon arrival or not. Insurance for spoilage on route, customs problems, mishandling, transport delays, etc., is totally unrelated to export credit insurance.

During this consultancy it was reported that a Committee on Export Finance was convened recently by the BOG comprised of:

Mr. A.O. Bediako	Deputy Governor, Bank of Ghana
Mr. K. Bervell	Bank of Ghana
Mr. V.A. Ofosu-Amaah	Ghana Commercial Bank
Mr. E. Brobbey	Social Security Bank, Ltd.
Mr. Owusu Adjei	Ghana Export Promotion Council
Mr. G. D. Quansah	Export Finance Company
Mr. K. Sakaimah	Ministry of Trade and Tourism
Mr. S. Adom-Asomaning	Bank of Ghana
Mr. G.K. Agama	Governor, Bank of Ghana

One of the tasks of this committee will be to facilitate the coordination of services required to overcome many of the problems mentioned above. This committee does not include representatives of private commercial and merchant banks or exporters. Including them would provide needed perspective to assisting non-traditional exporters in the export finance area.

V. PROGRAM OPTIONS TO PROVIDE FINANCE SERVICES

A. Conclusions

While the non-traditional export sector in Ghana has a major role to play in the country achieving sustainable economic growth, availability of adequate export financing must be assured in order for non-traditional exports to achieve growth and diversification expectations.

An important factor constraining faster export growth and diversification is the conservative lending posture of the commercial banks and merchant banks which are allocating a sub-optimal portion of their resources to loans for non-traditional exporters.

Further reducing growth possibilities are the banks' strict collateralization standards and strong risk aversion tendencies.

The EFC is playing an important funding role for exporters, but is reaching the limits of its borrowing capacity and is not in a position to take significant new risk in export lending operations.

The most important need for the foreseeable future is for a risk-sharing mechanism to encourage the banks to allocate more resources to non-traditional exporters and substitute modern export financing techniques for old liquid asset and real property based methods of collateralization.

The other major need is for additional financial resources for the non-traditional export sector to be available on reasonable terms and conditions through existing commercial banks, merchant banks and the EFC.

Technical knowledge of design and implementation of export finance support mechanisms is lacking in Ghana, and export finance knowledge of many exporters and some bankers is inadequate. These problems should be addressed by an appropriate technical assistance program.

B. Program Options

The main types of programs that have been used in other countries to facilitate access of non-traditional exporters to finance include lending directly to the exporter, refinancing (usually discounting bank loans or rediscounting loans made by banks to exporters), pre-shipment export finance guarantees to banks for a portion of a working capital loan for export to induce the bank to lend where it would not normally, and export credit insurance to mitigate commercial and political risks faced by exporters. Many options have been used with respect to terms and conditions of such programs, eligibility requirements, organizational structure and funding.

A number of factors are exceptionally important in deciding what programs to offer and the conditions under which the programs will be effective. Based on FWA's extensive experience with export finance programs worldwide, the following are believed to be critical in designing and implementing these programs.

- Meets needs of many sectors, representing a wide spectrum of NTEs
- Flexibility to accommodate varied situations
- Serves exporters that can succeed, not only the highest risk exporters
- Easy to administer program

- Able to respond quickly to applications, due particularly to the short term nature of transactions
- Competent staff are recruited and compensated adequately
- Acceptable to most financial institutions that provide services to exporters
- Operated so as to be self-sustaining over time
- Operations insulated from political influence
- Adequate technical support is provided for design, implementation, and training

The recommendations that follow take into consideration these requirements. For each of the two programs recommended, the purpose and needs addressed are set forth. The main features of the program are then described, including eligible exporters, eligible financial institutions, use of export loans, terms and conditions such as security and collateral requirements, amounts to be financed/guaranteed, basic procedures, interest rate/fees and recovery procedures. Next, organizational structure and funding requirements are presented.

C. Export Credit Refinance Facility

1. Program Purpose

The purpose of the facility would be to make banks more willing to finance the export sales of Ghanaian NTEs by making available a source of funds which can be used to support loans made by banks to finance Ghanaian NTEs. This facility specifically would address the need identified for a pool of resources for pre-shipment loans to exporters as evidenced by the lack of liquidity in some financial institutions and the full utilization of EFC resources. It could also provide lower cost funds than currently available, which would allow more NTE exporters to afford financing and remain competitive. Operating as a second tier lender, the refinance facility would work through the existing financial system and would not substitute for existing primary lenders. As recommended, the facility would deal with instruments that could readily be traded in the money market such as bankers' acceptances. It is anticipated that over time the discount rates would clear the market, and the need for the facility would diminish.

2. Program Description

When an eligible lender decides to offer financing for an eligible export transaction and exporter, a request would be made to the refinancing facility to fund the proposed loan through purchase, at a discount, of either a bill of exchange or promissory note. In the case of a bill of exchange, it must be accepted by the lender and endorsed in blank (or to the order of the refinancing facility). The bill of exchange would be prepared under a non-documentary acceptance credit agreement (in the instance of pre-shipment financing against a firm export contract), or under a documentary acceptance credit agreement (in the case of post-shipment financing) between the lender and the eligible exporter. Acceptance of the draft by the lender would make it a primary obligation of the lender at maturity. In the case of a promissory note, it would be drawn in favor of the refinancing facility and signed by the lender. The promissory note must be drawn under a loan agreement between the lender and the refinancing facility. A separate agreement between the eligible exporter and the lender would be made to substantiate the eligible export financing, whether for pre- or post-shipment.

The refinancing facility would only assume the credit risk of the lender. The lender would retain the repayment risk on the loan it made to the exporter. In other words, the refinance funding must be repaid by the lender whether or not the exporter or the foreign buyer pays. If the lender is uncomfortable with this risk, it could request a pre-shipment export credit guarantee from the export credit guarantee facility to cover a portion of the risk. (See below.)

3. Eligible Exporters

Short-term pre-shipment and post-shipment loans made by an eligible lender to all exporters of non-traditional goods as defined by GEPC (which conforms to the definition adopted by the Export Sector Review Committee Report) would be eligible for financing. Loans made to indirect exporters under domestic letters of credit where there is direct evidence of an underlying non-traditional export transaction would also be eligible.

4. Eligible Lenders

Any financial institution operating in Ghana which is permitted to make short-term working capital loans in support of non-traditional exports would be eligible. At this time, the EFC and all commercial banks and merchant banks supervised by the Bank of Ghana would be eligible.

5. Eligible Transactions

Refinancing would be available for loans to purchase non-traditional products for export or inputs for production of such goods for specific transactions evidenced by firm export orders or export letters of credit. In the case of disbursements under pre-export lines of credit, evidence of an underlying export transaction and the expected uses of the funds must be provided in support of the loan. To be eligible for refinance, the underlying loans could not exceed the lesser of a specific percentage of the export order (for example 85%) or 100% of the costs of producing the export order. Eligible uses would include purchase of raw materials, processing, transport and freight, packaging for producers and purchase/packaging/and shipping of goods for export by non-producers. The bank must maintain evidence that the exporter agreed to use the loan exclusively for working capital in support of specific export transactions as set forth in the loan application and agreement.

Appropriate covenants under a master agreement would obligate the lender to utilize the refinancing facility only for funding loans that conform to the eligibility criteria and to maintain appropriate records, available for inspection by the refinance facility, auditors or any funding agency. Evidence of underlying firm export orders or letters of credit must be provided with applications for refinance under the master agreement. If the lender did not comply with the requirements to use funding only for eligible transactions and failed to maintain adequate records to demonstrate that the requirements are met, access to funds by the lender could be curtailed. Such actions would be taken by the Export Refinance Committee described below.

Refinancing would be available only for the term of the underlying short term pre-shipment loan, which could not exceed 180 days. The term of the maturity of the draft must bear a reasonable relationship to the length of time required to complete the underlying trade transaction, and in no event would financing be extended outside of normal trade terms. Exceptions for export loans on longer terms (up to one year) might be considered when justified by specific pre-shipment requirements. It would be expected that the exporter pay the pre-shipment loan from the proceeds of the export transaction.

6. Loan Size

The maximum size loan that would be eligible for refinance is the maximum loan to one borrower rule in effect for commercial banks (currently 25% of capital for secured transactions).

No limit would be proposed on the maximum amount of refinancing available to any one bank, except that the financial institution must meet the capital requirements imposed by law after taking into account the funding received from the refinance facility. An institution like EFC that is not covered by the law must be able to demonstrate that it could meet the capital requirements were they to apply to it.

7. Currency

Refinance funding would be made available and be repayable in Cedis in support of Cedi loans to exporters. While many refinance facilities are established specifically to fund imports of inputs needed to produce goods for export where readily convertible currency foreign exchange is not available, this would not seem to be necessary in Ghana given the current foreign exchange regulations in Ghana and the exporters' apparent ready access to needed foreign exchange.

8. Interest Rate

The discount rate could be set to correspond with market interest rates in Ghana, or could be set at some lower rate to provide specific benefit to the NTE sector. Given current high positive real rates of interest in Ghana which exceed those in most countries, it could be argued that interest rates should be set with reference to lower, but still positive, interest rates elsewhere.[1] For example, the discount rate could be set at the 6 months LIBOR, plus the inflation rate in Ghana, plus an appropriate risk premium. The lender then could charge a specific margin above this rate, say 4%, to compensate them for credit risk, administration, etc. Thus, if LIBOR were 5%, and inflation in Ghana 10%, and 3% were an appropriate risk premium for Ghana, the discount rate would be set at 18% and the lender would make loans to the NTEs at 22%. Using such a formula would set a presumed real value on the funds provided by USAID, give some interest rate relief to exporters and would not be expected to cause significant distortions in domestic financial markets. While these would be positive reasons for adopting such an interest rate formula, it should be noted that setting rates relatively close to the current rates charged to exporters might prevent some exporters from obtaining funding and some banks might choose to use their own funds to lend because their returns on the blended cost of funds are greater than can be earned using the refinance facility. The effects of setting the specific interest rate formula should be investigated more fully in the

[1] If interest rates decline in Ghana, the proposed programs should not be adversely affected and the exporters would certainly benefit. It should be noted that lower rates do not automatically result in provision of finance to companies not previously financed. Credit policies and procedures of banks and the situations of individual exporters affect credit availability substantially.

detailed program design, and interest rate policies for the program should be structured carefully.[2]

Rates should be adjusted regularly to reflect changes in market conditions and inflation. Interest rates should be reviewed every three months, and adjustments made, if appropriate. The adjustments could be made by committee review. The committee that is being recommended as a policy setting group (or Board of Directors) for the facility could serve this function. (See organization and management below.)

9. Organization and Management

a. Operations

The mechanics of day-to-day management of a refinance facility are not very complex and require relatively little administration. Requirements include:

- Investing available funds in instruments that meet set criteria for appropriate time periods, reflecting trust responsibility for funds.

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[2] Some export pre-shipment refinance facilities, including ones sponsored by USAID, have not been efficiently utilized because of inappropriate interest rates relative to other available sources of funding, lack of participation by a broad spectrum of banks, and policies that limit the number of firms that qualify for access.

- Reviewing applications for funding to determine if eligibility requirements are met, and doing so within a short period of time (1-2 days maximum).
- Disbursing approved loans at appropriate discount rates and receiving loan repayments from lenders.
- Keeping accurate, timely records of all transactions.
- Preparing regular, timely reports on activity and financial performance for the review committee, USAID and others, as appropriate.

The investing, disbursing, repaying, and record-keeping activities are similar in nature to the activities of the discount houses.

b. Management

It is recommended that responsibility for policy and oversight of the facility rest with an Export Refinance Committee established for the purpose. This Committee would act like a Board of Directors and would be made up of representatives from the private sector (e.g. two representatives from commercial banks/merchant banks, one from a discount house) and the public sector (e.g. GEPC and BOG), and one representative of USAID and/or other donors. An exporter association representative in the future might also be a member. The committee would meet at least monthly to take up policy matters, review and approve master agreements with lenders, and review operating results. At least once a year, the Committee would review the terms and conditions of the refinance facility and make adjustments as necessary to achieve the purpose of the facility. Any policy changes must be approved by a majority of the Committee members and be acceptable to USAID. The committee would also have the responsibility of setting interest rates at least quarterly, as described above.

Day-to-day management would be the responsibility of one of the discount houses. The discount house would undertake the functions outlined above that are necessary for operation of a refinance facility. The discount house would set up appropriate accounting and management information systems, and segregate export refinance facility funds from the rest of their activities.

It is recommended that the discount house be compensated for management of the refinance facility through some fee arrangement that covers costs and allows them to earn a reasonable profit, commensurate with what they net on their other activities. Part of the compensation could be earned by investing excess funds at their current margins for intermediation. For example, once funds have been disbursed, subsequent repayments would be reinvested, either in new export refinancing to lenders or in the money markets if not required for refinance activities. Investment earnings could be added to the fund or used to supplement reserves for the guarantee.

Both discount houses expressed interest in managing the refinance facility. Their eventual willingness to undertake the task will be a function of the specific compensation arrangements and the extent of the administrative responsibilities. The legal feasibility of employing this option was not examined in depth. However, this activity closely resembles other discount activities which are authorized. Legal issues such as this should be thoroughly investigated in the project's design phase.

Alternate management arrangements were considered. In many developing countries, including Thailand, Korea, Indonesia and Morocco for example, the central banks manage pre-shipment export refinance programs along with other refinance activities related to managing the money supply. Because of its involvement in many programs and efforts to return its focus to traditional central bank activities, as well as lack of available, competent staff, it seems that BOG would not be the appropriate managing body. Several lenders and exporters expressed the opinion that other money management issues of concern to the BOG would interfere with the program and that administration was likely to be slow and cumbersome. Having a commercial bank, merchant bank, or the EFC operate the fund would not be appropriate in that each would have the appearance of conflict of interest with respect to its own lending, and it is unlikely that other lenders would willingly disclose information about their loans in a competitive lending environment. Setting up a separate organization to handle this activity would not be justified on the basis of cost of organization or on-going operation. The activity is clearly one of intermediation on a short term basis, which is consistent with the current activities of the discount houses.

10. Amount of Funding

The Export Refinance Facility should supplement the resources provided by the present financial system in Ghana. It should not substitute for resources already provided for financing working capital needs of NTEs, and should be viewed as a temporary measure to encourage allocation of resources to the NTEs, which as financial markets develop will be less and less necessary. Likewise, to the extent possible it should not cause significant distortions in the price of credit in the domestic market. Therefore, it is recommended that the Export Refinance Facility should attempt to satisfy nc more than 50% of the need for financing over the next five years. However, program results and economic conditions might require some flexibility with regard to this percentage. It is assumed that as the financial condition of commercial banks improves, they would increase lending to NTEs by 20% per year for two years and then increase by 30% for the following two years, as would the EFC. No additional disbursements are considered to occur in 1991. It is assumed that the refinance facility would fill in the gap between the need and the amounts provided by the lenders. In dollar terms, it is assumed that refinance activities would earn a real interest rate of 8% on average outstanding balances from year to year, and that the cost of funds is nil to the refinance facility.

Taking into account the financing need identified, project funding is proposed as shown in Table 19.

TABLE 19

PROJECTED FUNDING FOR THE EXPORT CREDIT REFINANCE FACILITY 1991-1995

(millions of US$)

	1991	1992	1993	1994	1995
Total NTE Funding Required	20.5	29.1	40.6	57.1	79.8
Provided by Lenders	17.0*	18.7	22.4	29.1	37.9
Financing Gap	(5.0)	(10.4)	(18.2)	(28.0)	(41.9)
Refinance Required	0	10.4	18.2	28.0	41.9
Refinance Disbursements Required		10.4	7.8	9.8	13.9
Earnings from Refinance/Invest.		.4	1.1	1.8	2.8
Cumulative Earnings		.4	1.5	3.3	6.1
USAID Disbursements		10.0	7.7	8.0	11.1

* Assumes $10 million at EFC and $7 million at other lenders

Under this scenario, USAID disbursements for the refinance facility would total US$36.8 million over the period.

These projections compare with a budget requirement estimated by EFC of US$29 million outstanding for direct lending and US$16 million in refinance, as shown in Table 20.

TABLE 20

EXPORT FINANCE COMPANY BUDGET, 1991 - 1995
(US$ Million)

	1991	**1992**	**1993**	**1994**	**1995**	**TOTAL**
Direct Pre- & Post Shipment Credit	10.50	7.0	5.0	3.35	3.00	28.85
Refinance Scheme	1.45	4.0	3.9	3.80	2.78	15.93
Total	11.95	13.0	8.9	7.15	5.78	44.78

Source: NTE-MTP

This budget appears to assume that about one-third of EFC resources would be met by the refinance facility. Using the projections of need from the previous table, EFC would address slightly more than 50% of the need quantified and would use slightly more than 50% of the resources of the refinance facility.

D. Export Credit Guarantee Facility

1. Program Purpose

The purpose of the Export Credit Guarantee Facility would be to expand exports from Ghana by encouraging lenders to make working capital loans to non-traditional exporters to support production of goods for export. Lack of adequate pre-shipment working capital is seen as a major barrier to expansion of non-traditional exports. Non-traditional exporters often find that commercial banks are reluctant to lend to them, for such reasons as that the firms are perceived to lack sufficient collateral, are not well known to lenders, and have insufficient technical or export experience. The Export Credit Guarantee Facility would encourage lenders to extend working capital financing by reducing the risk associated with pre-shipment loans to non-traditional exporters.

2. Program Description

The Export Credit Guarantee Facility would provide repayment guarantees to lenders for short-term working capital loans to qualified non-traditional exporters. The guarantee could apply to single export transactions or to loans made under a revolving line of credit where it can be demonstrated that the credits will be used solely for the purchase/packing or production and shipment of goods to be exported. This would normally be demonstrated by exporters having irrevocable letter of credit or firm export orders. The guarantee would cover 65% of the loan principal and interest up to the date of claim payment at the lower of the loan rate or the rate allowed for export loans refinanced under the Export Refinance Facility. The exporter that is guaranteed should have access to financing under the refinance facility, but lenders might also use other loan resources which offer an interest rate advantage to the exporter over the refinance facility.

The guarantee would only protect the lender from default by the exporter. The guarantee would not cover non-payment by the foreign buyer.

3. Eligible Exporters

Eligible exporters would be non-traditional exporters as defined by GEPC from time to time, which cannot obtain adequate working capital needed to execute firm export orders because of reluctance of banks to lend the amounts required. Specific criteria relative to export experience should be set to encourage use by exporters which have real possibilities of being a long-range success. For example, one criterion for eligibility might be to have been in business for at least two years, to have operated profitably for a specified period, have successfully exported during the past year amounts representing a certain percentage of the current loan and/or have management experienced in exporting from Ghana.

4. Eligible Lenders

Any financial institution operating in Ghana which would be permitted to make short term working capital loans in support of non-traditional exports should be eligible. At this time, the EFC and all commercial banks and merchant banks supervised by the Bank of Ghana would be eligible. The lender must have the ability and resources to service the loan, including the ability to use the Export Refinance Facility to refinance the guaranteed loan, and the capacity to register collateral and collect loans according to established procedures in Ghana.

5. Eligible Transactions

The guarantee would be available to support loans for purchase of non-traditional products for export or inputs for production of such goods for specific transactions evidenced by firm export orders or export letters of credit. The same criteria would apply as for the export refinance facility. Evidence of an underlying export transaction and the expected uses of the funds must be provided in support of the loan. To be eligible for the guarantee, the underlying loans could not exceed the lesser of a specific percentage of the export order (for example 85%) or 100% of the costs of producing the export order. Eligible uses would include purchase of raw materials, processing, transport and freight, packaging for producers and purchase/packaging/and shipping of goods for export by non-producers. Loan proceeds could not be used to purchase fixed assets. Guaranteed loan proceeds could not be used to repay existing debt regardless of the source (e.g. bank loan or supplier credit). The bank must maintain evidence that the exporter agreed to use the loan exclusively for working capital in support of specific export transactions as set forth in the loan application and agreement.

6. Security/Collateral

The main source of repayment of guaranteed loans is anticipated to be the proceeds from the underlying transaction. The personal guarantee of principals should be required. To the extent lenders possess collateral, the collateral will be shared pari-passu with the guarantor. It is not anticipated that the Export Credit Guarantee Facility will normally seek security in addition to the proceeds of the export transaction and personal guarantees, but it should have the right to do so.

7. Coverage[3]

The Export Credit Guarantee would cover 65% of the principal amount of the loan. Interest would be covered up to the date of the claim payment at the loan rate or the rate for an eligible loan funded under the Export Refinance Facility, whichever is lower. The 65% coverage compares with 67% offered under the BOG Credit Guarantee Scheme, and 50% offered under USAID's Private Enterprise Loan Portfolio Guarantee. Schemes in industrialized countries tend to cover 80% or more of the loan amount, while developing country programs offer lesser coverage because of concerns that the bank be sufficiently at risk to monitor the credit, because the staff of guarantee organizations do not have adequate technical skills to evaluate risks fully and because guarantee reserve resources are inadequate to support larger guarantees. This should be balanced with the need to give sufficient incentive to the banks to induce them to lend. Lenders indicated that 75% or more would be preferable, but that the 67% of the existing Credit Guarantee Scheme, or even 50% would encourage them to lend in many cases where they would not at the present time.

The maximum individual guarantee would be 10% of the capital and reserves of the Export Credit Guarantee Facility.

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[3]The rationale for choosing 65% coverage, including the experience of other countries with guarantee facilities, is described in Attachment E.

The guarantee should only apply to loans made for 180 days or less that relate to identified export transactions as evidenced by letters of credit or firm export orders. Longer terms would be considered only on a case-by-case basis.

8. Application Procedure

The lender would make an application for the guarantee to the Export Credit Guarantee Facility on its application form, with supporting documentation regarding the purpose of the loan, the underlying export transaction, basic information on the exporter, and if possible, on the foreign buyer. Lenders would normally be required to submit their own credit analysis and describe disbursement and payment procedures.

The Export Credit Guarantee Facility staff would review the application for completeness, verify the information with respect to credit experience and legal proceedings, obtain information from the appropriate industry association concerning the exporter's commercial reputation and ability to execute export contracts, and underwrite the application on the basis of the specific eligibility criteria. It is anticipated that the guarantee applications would be processed within a specified number of days (e.g. five business days).

The lenders would have a major role in administering the guarantee facility.

9. Fees

A fee set as a percentage of the amount guaranteed (say 2%) would be assessed on the amount of the loan. A modest application fee and a commitment fee might also be charged.

10. Non-Payment

The lender would be required to notify the Export Credit Guarantee Facility of any payment delinquencies within 30 days of their occurrence, and monthly thereafter. No further disbursements could be made if the exporter had past due obligations outstanding.

11. Claims and Recoveries

After payment was past due for 90 days, the lender could submit a claim under the guarantee. The claim must indicate what actions the lender has taken to effect repayment. Any rescheduling, legal action or acceleration of debt could not be undertaken without consent of the guarantor. Claims would normally be paid after four months of the due date assuming the claim was eligible and had been made in a timely manner, or within one month in the case of court-decreed bankruptcy or insolvency. All recoveries would be shared pro-rata based on the risk-sharing percentages, as would be legal expenses.

12. Organization and Management

It is recommended that the Export Credit Refinance Facility be managed by a merchant bank, either Continental Acceptances or Ecobank. Both have expressed interest in the management of the facility, and both have skilled personnel that could operate the facility. Merchant Bank has no interest in managing the facility in view of its service to traditional exporters and involvement in the Home Finance Company. Continental Acceptances might be preferable in that it has a longer operating history than Ecobank.

Whether or not Continental Acceptances could manage a guarantee facility under current laws in Ghana was not addressed directly. However, it should be noted that issuance of financial guarantees (or standby letters of credit) is a common function of merchant banks. Continental Acceptances believed it could undertake management of the guarantee facility and it was planning to participate in the A.I.D. Private Sector Guarantee Facility Program. The Export Credit Guarantee Facility could complement this activity. As noted earlier, legal issues should be thoroughly examined in the design phase of the project.

Having a facility managed by a financial institution that users consider a competitor could be viewed as a conflict of interest and cause other institutions to be reluctant to use it for fear of losing clients to Continental Acceptances. While this could occur, it is believed that this problem could be overcome by assuring that the program does not carry the Continental Acceptances name, that it is marketed separately, that the accounts pertaining to the facility are kept separately, and that a committee with representatives of other lenders, the GEPC, and BOG, approve larger guarantees and set policy parameters for the guarantee facility. The Export Refinance Review Committee proposed for the Export Refinance Facility could also serve this function. It will be important that the private sector be clearly represented to assure that private sector management skills are brought to bear and that public and private sector lenders avail themselves of the facility.

Other options for management of the facility include BOG, establishment of a separate organization, EFC, an insurance company or a commercial bank. Given the problems of the commercial banks, this option would not seem to provide any benefit greater than using a merchant bank. EFC does not seem appropriate given its newness, small staff and extensive level of activity, plus its perception that managing a guarantee would constitute a conflict of interest (in expectation of being a substantive user of the program). While there is some interest from individual insurance companies, experience with credit insurance is not particularly good. Also additional staffing and training to undertake the activity would be required.

The cost and effort involved in setting up a new organization would not seem warranted for a facility of this size. New private sector shareholders would have to be found, willing to provide capital. This could be difficult given that the insurance companies have already capitalized the EFC and participate in other financial institutions, and that the banks are not in good financial condition and they are already considering participation in the venture capital company, credit agency proposal, etc. Several lenders suggested that this was the preferable option, but one to which they could not be sure they would commit at this time. Once the guarantee and refinance facilities have been in operation for some time, it is possible to contemplate that a separate Eximbank-type organization could be formed that included these and other export finance facilities.

Management by BOG is another option. It offers the advantage of being neutral on competitive grounds and therefore acceptable in principle. It should be noted, however, that BOG's track record in managing guarantee facilities is not very good. BOG is moving away from non-central banking type activities. Importantly, virtually all lenders were not in favor of BOG involvement due to concerns about bureaucracy, staffing and political involvement.

13. Capital and Reserve Requirements

In order for export credit guarantee schemes to be successful, it is important the users have confidence that claims will be paid in a timely manner. Having sufficient reserves to meet claims when they occur is one way to provide this confidence, as is capable management.

A guarantee facility can leverage its capital by some factor, under the assumption that the risks incurred are spread over a wide number of transactions and exporters and that losses will be spread over time. Initially, a conservative gearing ratio of 4:1 is recommended. After experience is gained and it can be determined that a higher ratio is prudent, the ratio can be raised.

A guarantee facility that depends primarily on guarantee fees for reserves will have very limited capacity. Therefore, to be immediately effective, it should be capitalized with sufficient initial reserves. Earnings from investment of capital can be added to reserves. It is generally assumed that fee income will be sufficient to cover administrative costs.

In exchange for managing the Export Credit Guarantee Facility, the merchant bank would receive a fee related to its cost of operation and a reasonable profit.

It is assumed that guarantees would cover transactions outstanding for 180 days, there would be a gearing ratio of 4:1, and that there will be 65% coverage of 85% of export transactions. This means that US$1 million in guarantee reserves would support US$14.7 million in annual exports. At a higher guarantee amount of 75%, US$12.5 million of exports could be supported.

Given this leverage, a guarantee facility need not be particularly large to have a substantial impact on Ghana's non-traditional exports. Assuming that guarantees would be needed to facilitate approximately one-third of the growth in exports, the following table was prepared.

TABLE 21

ESTIMATE OF EXPORT CREDIT GUARANTEE CAPITAL REQUIREMENTS
(in millions of US$)

	1991	1992	1993	1994	1995	Total
Total Exports Projected	86.1	122.0	171.5	240.1	335.6	955.3
1/3 of growth		12.0	16.5	23.0	31.6	
Guarantee funding Requirement		.8	1.1	1.6	2.1	5.7

Under this scenario, a guarantee fund of US$ 5.7 million would be required to support projected growth for the next four-five years. Investment of reserves would add to the capacity to guarantee, but at the same time claims would diminish the impact.

VI. TECHNICAL ASSISTANCE PROGRAM

A technical assistance program is necessary to assure the following: (1) that the EFC serves exporters' changing needs, is fully competitive, and continues to operate on a sound basis; (2) that the new rediscount and guarantee programs are properly structured, marketed and administered; (3) that exporters are conversant with international requirements for financial competitiveness and that they are able to make full use of available financial alternatives; and (4) that financial institutions are able to offer first-class service to exporters, using modern instruments, techniques and programs.

External technical assistance can help in all of the above areas by providing training and short-term design of systems, policies and procedures for the EFC; design, start-up and long-term implementation support for the new rediscount and guarantee programs; training in export finance options for the exporters; and training in modern export lending techniques for the financial institutions. This section of the report recommends a technical assistance program addressing the areas to be covered, the types of assistance required, and the time-frame for providing assistance.

Export credit, guarantees and insurance is a highly specialized field. Expertise in this area is currently in short supply in Ghana and will need to be developed. The TA program should develop this expertise within the EFC, the agencies administering the new guarantee and rediscount programs, other financial institutions, and the exporting companies themselves.

Assistance for the EFC is proposed in order to develop improved policies and procedures for lending to non-traditional exporters; to upgrade the accounting system; to computerize operations; to design a modern management information system; and to improve loan analysis, monitoring and collection procedures. Training would be offered to the EFC in all of these areas, along with training in marketing and strategic planning.

Training would be given to the administrators of the new guarantee and rediscount programs in a variety of subjects related to smooth and efficient operation of the new programs, but also importantly in such subjects as credit evaluation and risk reduction. Other financial institutions and the exporters would receive training in modern export financing techniques and what is required to be internationally competitive in the credit area.

A four year program of technical assistance is suggested. The program should include a full time advisor for the first two years, who has had extensive experience as an executive with a successful national export credit, guarantee or insurance organization. This advisor would help design and implement the new guarantee and rediscount programs. FWA does not believe that the long term advisor should be placed in EFC. While some technical assistance to improve the export finance skills of banks and the EFC could be useful, the need for full time advisors to accomplish this task is not clearly evident.[4]

Twenty months of short-term assistance by different experts is recommended, to provide specialized advice on various technical aspects of guarantee and rediscount program design and operation. The short-term experts would also design and help implement new systems, policies and procedures for the EFC. In addition, they would provide training to the EFC, other financial institutions, and the exporters.

Further training at counterpart organizations, universities and technical schools overseas should be arranged as part of the TA program. Computer equipment and software, other office equipment, and a vehicle for direct-call marketing by the EFC might also be financed as part of the TA program.

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[4]A suggestion was made that a longer-term advisor could be placed with EFC and could pre-qualify companies for guarantees. FWA does not believe that this is appropriate because it would be time consuming and would not support the objective of having private sector financial institutions operate a viable export finance program.

The total cost of the technical assistance program is estimated to be US$1,117,600 over the four-year period, including US$917,600 for consultant and training services in Ghana, US$100,000 for staff training overseas, and US$100,000 for procurement of computers, software and other equipment for the EFC. Details are shown on the next page:

Professional Services	Person-Months	Cost (in US$)
Long-Term Advisor in Export Credit, Guarantees & Insurance Management	24	$ 384,000
Short-Term Advisors/Trainers (1-2 months each)		
- Rediscount Program Specialist		
- Guarantee/Program Specialist		
- Credit/Underwriting Specialist		
- Problem Loan Specialist		
- Manpower Planning/Training Specialist		
- Accounting Specialist		
- Marketing Specialist		
- Information Systems Specialist		
- Strategic Plan Development Specialist		
Total Short-Term	20	$ 320,000
Total Professional Services	44	$ 704,000
Reimbursable Expenses		
- Travel (International @$3,900/RT)		$ 93,600
- Local per diem, travel		$ 100,000
- Telephone, telex, fax, etc.		$ 20,000
Total Reimbursables		$ 213,600
Management Training Overseas		
- Training at counterpart export credit organizations		$ 50,000
- University and technical school courses		$ 40,000
- Instructional and reference materials		$ 10,000
Total Management Training		$ 100,000
Equipment		
- Computer, peripherals, software		$ 50,000
- Printing, Advertising, etc.		$ 20,000
- Vehicle		$ 30,000
Total Equipment		$ 100,000
Total Technical Assistance and Equipment		$1,117,600

In order to assure that the technical assistance program is effectively implemented, it is suggested that a firm be selected through standard competitive bidding procedures to provide all of these services. A firm will be most able to coordinate all aspects of the TA program, provide well qualified experts, and assure that all assistance is provided in a timely manner. The firm that implements the technical assistance program should have a solid record of designing and administering such programs, and should offer a full roster of consultants and trainers with the necessary specialized credentials and developing country experience.

The following are suggested evaluation criteria for technical proposals received from qualified firms.

- The experience of the firm/organization in the fields of export credit, guarantees and insurance, especially in developing countries (30 points).
- The adequacy of the proposed approach and work plan in responding to terms of reference (25 points).
- The qualifications and competence of the personnel, both long and short-term, proposed to carry out the consultancy (35 points).
- The design and suitability of the program to transfer skills to local personnel (10 points).

The curriculum vitae of the senior personnel proposed to undertake each area of the consultancy should be provided. The personnel should be evaluated using the following criteria.

- General qualifications, including professional, technical and academic credentials (30 points).
- Relevant practical experience for specific tasks, including experience in developing countries. Senior level experience in management of export credit, guarantee and insurance organizations will be advantageous (50 points).
- Experience in training and skills transfer, particularly in developing countries (20 points).

ATTACHMENT A

LIST OF PERSONS CONTACTED

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'B9'

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ATTACHMENT B

U.S. FINANCIAL INSTITUTIONS' TRADE FINANCING ACTIVITIES IN GHANA

Below are responses from ten banks in the U.S. to the question of that institution's banking relationships with Ghana in general, and with Ghanaian financial institutions, in particular.

Bankers Trust Company
New York, NY

Relationship managed wholly in London office. No facilities for Ghana in NY office.

BHF Bank
New York, NY

Relationship is managed out of Frankfurt, Germany

Citibank
New York, NY

Lines of credit for short-term trade transactions, primarily for confirming letters of credit.

Maximum term is one year, but this is rare.

Lines for Social Security Bank; Ghana Commercial Bank; Merchant Bank; Agricultural Development Bank; Bank for Housing.

Lines are for $1.0 million, collateralized 100% with cash on deposit.

Excellent flows over accounts. Citibank reports being depository of donor funds. They are doing more that is not known in NYC out of the regional office in Abidjan.

Fidelity Bank
Philadelphia, PA

Lines of credit for short-term trade transactions, primarily for confirming letters of credit.

Maximum term is 180 days.

Lines for Merchant Bank ($2 million); Ghana Commercial Bank ($5 million); Continental Acceptances ($3 million) Collateralized 100% with cash on deposit.

There is a separate, special facility for confirming a large standby letter of credit issued by Ghana Commercial Bank.

Manufacturers Hanover Trust Company
New York, NY

Lines of credit for short-term trade transactions, primarily for confirming letters of credit.

Maximum term is 180 days.

Lines for Merchant Bank; National Investment Bank; Social Security Bank; Bank of Ghana; Ghana Commercial Bank.

Lines are medium six figures on average. Country limit is in low 7 figures. There is a special line for confirming a large letter of credit issued by Ghana Commercial Bank for the purchase of oil from Nigeria.

Bank reports 20 years of experience in Ghana. They are lending to Ashanti Gold Fields and are a depository for U.S.A.I.D. money from Bank of Ghana. Ghana is one of two countries in Sub-Sahara Africa whose aggregate country limit has not recently been reduced.

Economist expresses concern that private sector is not more active and that donor flows are basically supporting the economy of the country.

Maryland National Bank
Baltimore, MD

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No lines of credit. Will consider doing transactions with the guaranty of the U.S. Eximbank.

Morgan Guaranty Trust Company of New York
New York, NY

Lines of credit for short-term trade transactions, primarily for confirming letters of credit.

Mostly up to 180 days, but possible to go out to one year.

Lines are in place for Social Security Bank; Ghana Commercial Bank; National Investment Bank; Merchant Bank.

Amounts are confidential and vary in size.

Bank reports an account for the Volta River Authority. Limited experience with donor agencies.

The Bank of New York
New York, NY

All relationships with Sub-Sahara Africa suspended.

The Chase Manhattan Bank, N.A.
New York, NY

Lines of credit for short-term trade transactions, primarily for confirming letters of credit.

Maximum 180 days.

Lines in place are for Ghana Commercial Bank; Bank of Ghana and National Housing Bank.

Bank reports some donor deposits from the African Development Bank.

The Standard Chartered Bank New York Agency

New York, NY

No lines available for Ghana in NY. There is a facility for financing U.S. exports to Ghana, which has a U.S. Eximbank guaranty.

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General Overview of Export Credit and Guarantee Schemes

A. Need for Export Finance

The availability of credit at a reasonable price and on appropriate payment terms is an important element in the success of exporting firms. Credit is necessary at the pre-shipment stage to enable the exporter to meet working capital needs and to purchase, manufacture and pack the goods destined for export. Pre-shipment financing also helps to meet administrative expenses and overhead requirements during the period prior to export. Such pre-shipment financing gains extra importance when a firm must stockpile substantial inventories of raw materials (including imported raw materials), semi-finished or finished goods because of problems in receiving imported requirements or in shipping goods overseas (because of shipping schedules, foreign exchange problems, distance from the source of supply or purchaser, etc).

At the post-shipment stage, credit is required to bridge the gap between the shipment of the goods and the receipt of payment from the overseas buyer. Usually, such payment is received in a matter of days or weeks, but increasingly sellers of all types of goods are being asked by their overseas customers to provide more extended credit to permit the buyers to realize some economic gain from their purchases before they have to make payment to the exporters.

The ability of exporters to obtain low-cost credit at both the pre- and post-shipment stages enables them to follow one of three basic scenarios: (1) increase export sales in price sensitive markets by quoting lower prices than would be possible in the absence of the credit, but not extending credit terms to the buyer; (2) make greater profit on sales by selling at the same prices as if no credit were available, extend no credit to the buyer and not increase sales volume; or (3) make more sales with the same profit margin by quoting the same price and extending credit to the foreign buyer.

As competition in the world market has become more severe, buyers have been able to demand and obtain more favorable export credit terms. Developing country exporters face several competitive disadvantages in offering export credit to their buyers. First, the commercial banking sector in many developing countries is very conservative in the extension of credit and normally offers shorter terms and higher interest rates than their industrial country counterparts. Second, because of their

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own size and because of risk perceptions, banks in developing countries frequently offer smaller amounts of credit to individual customers and insist on greater collateralization than in industrialized countries. Third, developing country banks are often less experienced and well-connected internationally, and therefore, less willing to make export loans. Fourth, many developing countries strongly circumscribe the extension of export credits because of balance of payments considerations. Finally, exporters in developing countries are handicapped in obtaining credit because of the relative newness of many of these operations and their smaller average size relative to firms in industrial countries.

In order to offset these problems, a number of developing countries, have implemented primarily government-sponsored schemes to facilitate the provision of export finance as reasonable cost, for both pre-shipment and post-shipment periods. These schemes normally work closely with official credit insurance programs, which offer risk coverage for loans made with the assistance of government funding programs.

B. Export Refinance Schemes

The main method adopted by developing countries to increase the availability and reduce the cost of export finance is the provision of refinancing facilities for commercial banks with the central bank or government-sponsored export financing funds. The commercial banks are offered refinancing at fixed rates of interest, provided they do not charge the exporter more than a certain maximum interest rate, at a given spread above the official discount rate. In this way, the commercial bank is encouraged to fund export transactions at a reasonable, sometimes even concessional rate, without having to be concerned with the risk that its cost of funding will exceed its financing charge, or even that its lending margin will be diminished by changes in funding cost during the term of the export credit.

C. Export Credit Guarantee and Insurance Schemes

To facilitate access to the such financing, many programs have been developed offering comprehensive guarantee coverage of virtually any risk which may prevent repayment of financing extended to the exporter to cover pre-shipment working capital needs. This is commonly known as an export credit guarantee, i.e., a guarantee to a financing institution that a loan made to an exporter for working capital will be repaid. The recipient of this guarantee coverage is the commercial bank financing the transaction rather than the exporter. These guarantee schemes are most prevalent in developing countries where export pre-shipment working capital financing is usually less available than in the industrialized countries. Where such guarantee schemes exist in industrialized countries, they are typically targeted only to small and new-to-export firms, since larger and more established exporting companies are assumed to have access to well-developed commercial bank financing without such guarantee support.

In addition to commercial risks like delayed payment, default, insolvency and bankruptcy of the foreign buyer, export credit sales may involve significant risks which are beyond the control of both buyer and seller, referred to as "political risks," which include war, riot, revolution, expropriation, shortage of foreign exchange, other transfer problems which may impede payment after shipment of the goods to the buyer's country and failure of a public buyer to repay its foreign debt for imports, for whatever reason. The commercial and political risks described above are typically covered by export credit insurance.

The need for export credit insurance and guarantee facilities is closely related to the type of products a country exports, the current and potential export markets, and the number and size of firms that export or potentially could export. The availability of needed financing and the capacity of the financial sector to provide both adequate and appropriate financing also affect both the need and demand for export credit and insurance and guarantee facilities. Additionally, government programs and regulations can either facilitate or hinder export development and influence how both exporters and banks react to and use export credit insurance and guarantee programs to expand their export related activities.

Export credit guarantee support is usually needed by small and medium-sized firms which have limited access to bank financing for their exports because the companies are not well known to banks, are perceived as not having a track record in business or exporting, and/or lack sufficient collateral to obtain needed financing.

Generally it is agreed that guarantees that enhance the creditworthiness of SMEs for export financing should be clear, transparent, and callable easily in the event of default. However, to protect the financial viability of the export loan guarantee fund, the commercial banks must be willing to indemnify the guarantee fund against misrepresentation of fact in the lenders application for guarantee, misuse or diversion of loan proceeds from the declared and intended use to support export sales and invalid or unenforceable loan and collateral security documentation. In addition, by sharing the risk, for example by the guarantee only covering 50%-75% of the risk, the banks are encouraged to analyze and monitor the loans to protect their interests. At the lower level of coverage, the guarantee fund can fairly automatically grant cover with minimal project review and appraisal. Often the guarantee is provided automatically upon a finding that the SME is not a past or present defaulter on a loan.

Normally a bank will enter into a master guarantee agreement with the export loan guarantee fund and loan guarantees are issued on a case by case basis under the terms of the master agreement.

Guarantee fees paid to the guarantee institution should be set so as to cover administrative costs and contribute to reserves for losses due to calling of the guarantees. Often the fees are shared between the lender and the SME because they both benefit from the guarantee.

Lenders are required to notify the guarantee fund of defaults and in collaboration with the guarantee fund take actions to pursue collection and recovery. When conditions are met for calling the guarantee, the export loan guarantee fund must promptly make payment in order for lenders to have confidence in the value of the guarantee.

Generally, it is preferred that an export loan guarantee fund not be managed by a single financial institution, primarily because no single institution can operate as easily as the full network of financial institutions. Competing institutions are often reluctant to share information or advise clients to pursue guarantees for fear that the client relationship will be lost.

The structure of an effective export loan guarantee fund should maximize autonomy vis-a-vis government intervention and influence, allow for free investment of surplus funds in order to maximize returns, minimize tax exposure, support attraction and retention of highly qualified staff, enjoy respect and confidence of the financial community and keep exposure leverage within limits consistent with sound financial management.

The institution established should have legal status appropriate to its role, the ability to use external funding sources, and receive equitable tax and regulatory consideration compared to similar institutions in operation.

Potential sources of capital and ownership are private and public commercial banks, development banks and other development finance institutions, the central bank, SME trade associations and external lending agencies such as IFC, USAID, etc. Shareholding should be as broad as possible in order to encourage participation by many financial institutions and reduce concentrations that could result in undue influence and pressure to take specific actions.

The guarantee fund should be adequately capitalized so as to make good on their guarantees. For most guarantee schemes, the guarantee fee is sufficient to cover the administrative and other routine costs, but reserves for losses are built primarily from capital and return on the investment of capital.

An essential ingredient for success of the export loan guarantee fund is the ability to attract and retain skilled managers and technicians, and that they be well-trained up to international standards to help insure the successful operation of the fund.

The schematic flow diagram on the next page illustrates the relationship between various parties to an SME loan guarantee fund and the steps to be taken in applying for and issuing export loan guarantees, paying claims and effecting recoveries.

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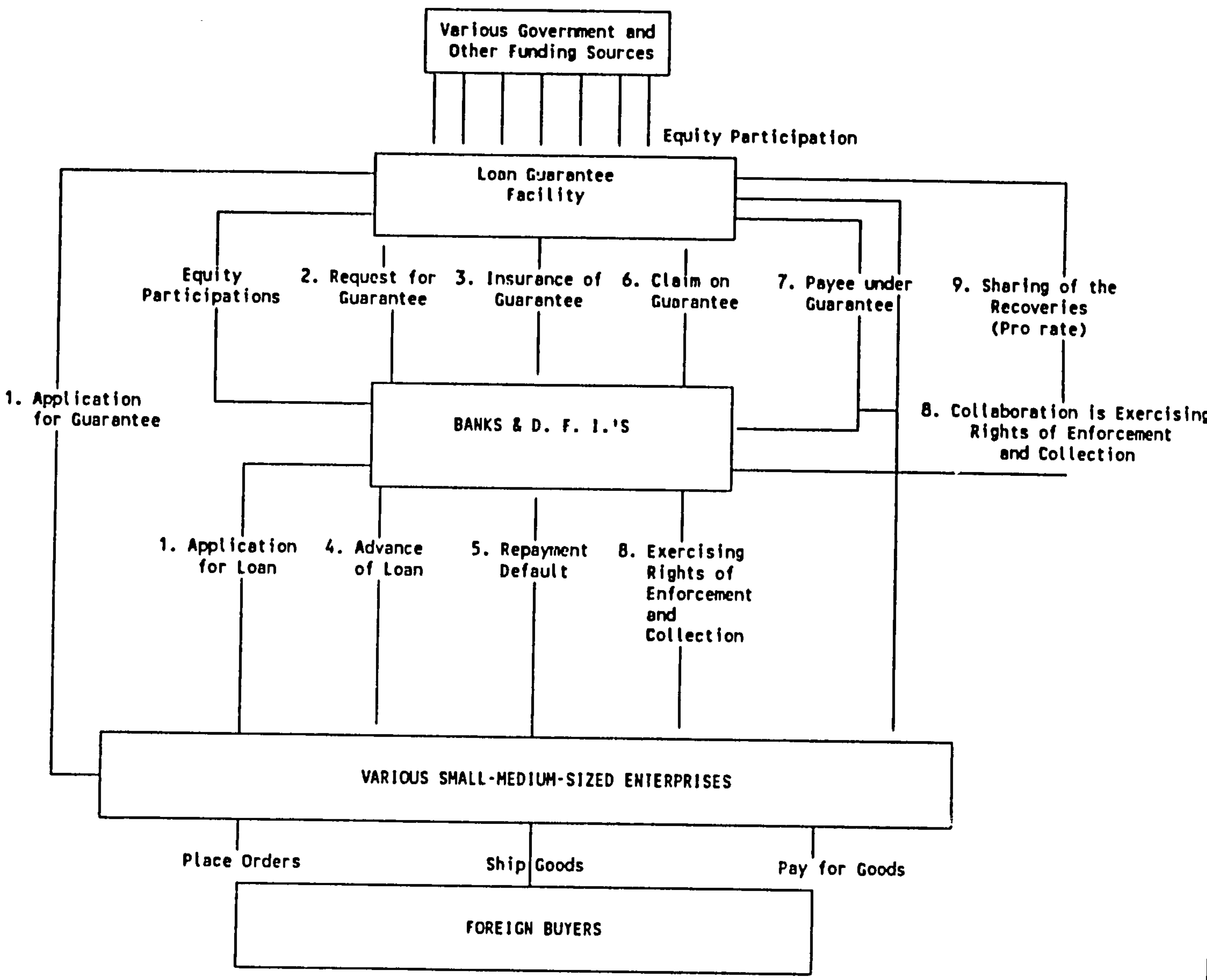
BASIC OUTLINE OF A TYPICAL EXPORT LOAN GUARANTEE SYSTEM
(SCHEMATIC FLOW DIAGRAM)



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ATTACHMENT D

NON-TRADITIONAL EXPORTERS IN PROFILE

If maximum growth in the non-traditional export sector of the Ghanaian economy to be achieved, timely access to financial resources is critical. The purpose of the following profiles of non-traditional exporters (NTE's) is to pinpoint to the greatest extent possible exactly when and how short-term working capital can be made available to NTE's to increase the number and size of completed export transactions. It is important that any financing scheme build upon existing financing, that beneficiaries represent an increase to the sector, and that new sources of financing not substitute for efficient existing sources. The profiles are intended to address the issue of constraints facing participants in the NTE sector which limit or prohibit access to financing and how such constraints can be overcome. Many participants may have already overcome those constraints. It is those which have not that any scheme must address in order to achieve incremental growth in the NTE sector in general.

While emphasis on, and distinction between, short-term pre- and post-shipment financing will be made, long- and medium-term financing requirements have not been forgotten. Rather, these requirements are the subject of another study and a different context for sectoral development.

METAL SCRAP DEALERS/EXPORTERS

BACKGROUND

The processing of scrap metals, aluminum, brass or copper for export to buyers in Germany, The Netherlands and other European countries occurs in one or more of the following ways:

- scrap is collected from the source and simply containerized and shipped, as in the case of aluminum billet scrap (2 weeks)
- scrap is collected, then sorted and finally containerized for shipment, as in the case of copper, brass or small aluminum scrap (3 months)
- scrap is collected, sorted and compacted into efficient blocks for containerization and shipment, as is the case for small aluminum scrap (3 months)

As noted, depending on the process and type of scrap, the time prior to shipment takes from two weeks to three months.

PRE-SHIPMENT FINANCING REQUIREMENTS

Sight letters of credit are the normal payment vehicle in the sale of scrap. It is reported that the average shipment is for US$45,000 equivalent, or two containers (20 tons). Suppliers of scrap to the exporters require cash payment, and, therefore, pre-

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shipment financing is required. For creditworthy exporters, banks will provide financing against evidence of a firm order through the presentation of a sight letter of credit. For the lender and borrower alike, the term of the financing can be defined by the expiry date of the letter of credit, on the one hand, and a realistic appraisal of the time required to gather the scrap on the other. Inconsistencies between the two can be settled before funds are at risk. Funds advanced can be paid directly to suppliers in some instances, and through the borrower in others. As relatively small cash payments may be necessary in the case of brass, copper or small recycled aluminum, payment directly to multiple small suppliers by the lender may not be practical. In either case, the physical control of inventory for collateral can be arranged in field warehousing and audited as appropriate.

Financing may be against a simple promissory note or a bill of exchange which, if accepted by the lending bank, could be discounted and subsequently rediscounted as a banker's acceptance. Warehouse receipts for the collateral could be obtained with physical audits as part of the control process.

POST-SHIPMENT FINANCING REQUIREMENTS

Once shipment occurs, payment from the foreign buyer takes from 30 to 60 days, even when shipment is made under a letter of

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credit. If a lender follows the flow of the export transaction, post-shipment financing can be utilized to pay off the pre-shipment obligation. This can be accomplished by advancing against the sight letter of credit obligation under an advance agreement, or against a promissory note, or under a documentary acceptance credit agreement using a draft (bill of exchange). The draft could then be accepted by the bank to create a bankers' acceptance and discounted. Should the bank desire to liquidate the acceptance, it is possible to rediscount the acceptance through one of the discount houses. Alternatively, a line of credit can be established which will allow the exporter to overdraw his checking account to pay pre-export obligations and suppliers.

Since it is possible to assign proceeds which emanate from a determinable foreign source as defined within the terms and conditions of the letter of credit, a post-shipment obligation could be denominated in a foreign currency. Rates comparable for similar obligations of like maturity in the buyers country could then be charged to the exporter without incurring additional foreign exchange risk on the amount advanced by either the lender or the exporter. This may have significant interest rate advantages for the exporter.

In a specific case, it is easy to visualize that as multiple shipments occur, and/or preparation of shipments overlap, a scrap exporter shipping four containers per month (the equivalent of about US$1.0 million dollars annually in containers valued at cedis 8,000,000 each) may need a facility for cedis 32 million. This assumes two weeks pre-shipment and six weeks post-shipment financing, and an advance of 50% of the FOB value. Proceeds are received in 30 to 60 days, the loans are repaid, and the cycle begins again.

PROJECT FINANCE REQUIREMENTS: SCRAP EXPORTERS

- storage facilities, e.g., graded yard near shipping facility
- compacting equipment for scrap
- sorting (magnetic) equipment for more sophisticated facilities, but usually manual labor is adequate.

SALT PRODUCERS/EXPORTERS

BACKGROUND

Salt production involves the successive evaporation of sea water moved through a series of salt ponds and drying "pans",i.e, shallow ponds with a concrete bottom to facilitate drying and bagging the crystals. The resulting rock salt is a non-traditional export that has been sold in the region since time immemorial. Traditional producers (managers) oversee the drying process, which takes about a month during the dry season from mid-September to mid-May, bag the crystals in 50 kg. bags, and export the product to Niger, Burkina Faso, Cote d'Ivoire, Togo, Benin, Nigeria and other regional markets for cash sale.

Sales are to distributors which are generally well-known to the producers. Often the buyers send their own transportation to take delivery at the ponds or centralized warehouses/depots. Terms are cash on delivery or, in the case of trusted (often family or extended family) distributors, on a consignment basis. Payment was not reported as a problem by interviewees.

With the principal ingredients being land near the sea, sea water itself, sun and unskilled labor, pre-shipment financing and post-shipment financing opportunities can reasonably occur only when the size of a single enterprise is relatively large or an association of producers work together on a larger scale. Alternatively, a "merchant exporter" or trading company can collect the production from multiple small producers. Interviewees indicate that such efforts are justified by the marketplace.

As evidence, they point out that the Nigerian market alone consumes 16 million tons of salt annually and is currently being served under an agreement with Brazil. Under the ECOWAS arrangement to reduce trade barriers among ECOWAS countries, which includes Nigeria, they see the market opening wider. Responding to that market will require financing.

PRE-SHIPMENT FINANCING REQUIREMENTS

In order to adjust for the seasonality of production, there is a need for the stockpiling of inventories to assure consistent availability of salt to fulfill export orders. Currently all production appears to be sold quickly and the assumption is that storage for future use will be done by the buyer/distributor. Production increases by producer/exporters may require pre-shipment financing. Such short-term financing is also surely needed by the "merchant exporter", the trading company, which must pay cash for its salt.

Short-term financing requirements are, in some instances, being met by red-clause letters of credit issued to known exporters. Under a red-clause letter of credit, provision for specific advances prior to shipment under the letter of credit are allowed, generally against presentation by the beneficiary (exporter) of a simple receipt and/or bill of exchange. Banks charge interest on such advances and reimburse themselves principal and interest when the letter of credit is negotiated and paid. Bankers report advances of 20 to 50% of the face amount of the letter of credit for some beneficiaries. However, not every export of salt is done under a letter of credit, let alone a red-clause letter of credit.

Therefore, short-term pre-shipment financing is required in two instances that are differentiated by term and purpose. First, inventory financing of up to 180 days is needed to allow for seasonal stockpiling, and second, pre-shipment financing for 30 to 60 days is utilized against firm orders communicated through letters of credit or other verifiable means.

Like the scrap dealers/exporters, inventory controls and audit procedures will be required to manage the risks associated with the financing of salt. Warehouses/depots will have to identified and monitored. Management systems and personalities will have to be evaluated.

POST-SHIPMENT FINANCING REQUIREMENTS

Entering new markets may require incentives to the buyers, including longer terms, than the traditional cash on delivery or sight letters of credit. Post-shipment financing of 30 to 60 days may be all that is necessary, but further market identification and analysis is required in order to finally determine the terms most appropriate to the market. Methods for assigning proceeds and establishing methods to monitor cash payments of receivables will have to be designed and implemented.

Debt instruments for pre- and post-shipment financing can be promissory notes or bills of exchange drawn under lines of credit or generated individually on a transaction-by-transaction basis.

PROJECT FINANCE REQUIREMENTS: SALT PRODUCERS/EXPORTERS

- financing for pumps and earthworks to expand production
- storage facilities
- transportation equipment

LINKAGES TO OTHER ASPECTS OF THE INDUSTRY

- processing of rock salt into various grades of table salt
- access to specialty/healthfood markets for sea salt

KOLA NUT PRODUCERS/EXPORTERS

BACKGROUND

Kola nuts are gathered from trees planted to shade other farm crops. There do not appear to be kola plantations or farms, but rather farms with kola nut trees on them. Interviewees indicated that gathering is done all year long and it is alleged that the Cote d'Ivoire, Nigeria, Togo, Sierra Leone, Gabon and even Liberia "have harvested eleven times in the last six months". The result has been a glut on the local and regional market. Therefore, there have been no kola nut exports for the last six months.

Two varieties of kola are gathered, the large, white kola available during the dry season, and the smaller, red or white kola during the rainy season. The large white variety brings the greatest price.

The interviewees skillfully avoided revealing their selling price per bag, but shared the following cost information on the large, white, dry-season kola. 40 to 50 kg. sacks cost about 30,000 cedis per bag. Local labor adds about 1,000 cedis; sacks and packing another 1,000 cedis; levies about 800 cedis and transportation could not be estimated. Costs associated with smaller kola nuts are about half those of the larger. Shipments

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typically are 400 to 500 sacks per truck (20 ton rig). Assuming a 50% markup, the price per truck would be a US$ equivalent of about $62,000.

Gathering, sorting and bagging take about three months, with suppliers being paid in cash. The sale of kola nuts is on a cash-on-delivery basis or under a consignment arrangement. In the latter case, payment averages 45 to 90 days from shipment. Payment has not been a problem for exporters, nor does financing appear to be a problem under existing operations. This may be attributable to the close relationship that exists between buyer and seller where family is concerned and where long-term (generations of merchants) trading relationships have evolved.

PRE-SHIPMENT FINANCING REQUIREMENTS

Interviewees indicated that current bank financing is too expensive and that the gathering/payment cycle is generally too short given what one must go through to get pre-shipment financing. This may be more a reflection of the current glut than the normal circumstance. Gatherers must be paid in cash for their kola nuts and the sorters/baggers also want their wages in cash. Requests for pre-shipment financing of 30 to 60 days may therefore be expected from "merchant exporters" when there is an export market to be served. Financing requests may be in the range of cedis 8 to 15 million per truck. In fact, this level of financing is also likely to apply for the process of moving kola nuts into the local market, a point that must not be ignored by the lender which is targeting exporters and not the domestic trade.

Funds disbursement procedures will have to be designed and implemented based upon a process of gathering and sorting that primarily occurs in remote locations and occurs in rather small quantities, i.e., truckloads. Lenders will have to monitor the depots or storage areas, possibly specific trucks, or design and implement other inventory controls to monitor the product being financed. The challenge of monitoring goods as they flow through the channels of trade are an important ingredient for any pre-export financing effort, but even more important when the domestic market for the product is so easily accessible and diversion is possible. Promissory notes will likely be the debt instrument of preference for pre-shipment financing, unless truck bills can be monitored and accompanying bills of exchange be generated.

POST-SHIPMENT FINANCING REQUIREMENTS

Interviewees were much more keen in reporting an identifiable need for post-shipment financing in order to cover transportation costs associated with a perceived market in the Middle East, notably in Saudi Arabia. Specifically this involved air shipments, which they were confident would revive the export market.

It would be appropriate to consider 60 to 90 day post-shipment financing against confirmed orders for well-known individual enterprises or for exports sponsored by kola nut associations for the purpose of entering new markets or serving old markets. Firm orders must be verifiable through dependable channels or against irrevocable letters of credit. Terms of 60 to 90 days must be determined reasonable based on the nature of the transaction, and in the specific case of sales to remote markets like Saudi Arabia, care must be taken that F.O.B prices are not being quoted for C.I.F. shipments. To show yet another example when terms need to be examined, reference was made to "dried" kola nuts for shipment to a processing plant in Nigeria. Drying may reduce the perishability of the product which might lengthen acceptable terms for payment, assuming, of course, continued creditworthiness of the buyer.

In similar fashion to the scrap dealers/exporters, post-shipment financing can be accomplished by advancing against sight letters of credit under an advance agreement, or against a promissory note, or under a documentary acceptance credit agreement using a draft (bill of exchange). The draft could then be accepted by the bank to create a bankers' acceptance and discounted. Should the bank desire to liquidate the acceptance, it is possible to rediscount the acceptance through one of the discount houses. Alternatively, a line of credit can be established which will allow the exporter to overdraw his checking account to pay pre-export obligations and suppliers.

The ability to obtain and present export documentation, however, may be one of the most difficult tasks for kola exporters, and this may likely be one of the major constraints to expanding post-shipment financing for this product.

PROJECT FINANCE REQUIREMENTS: KOLA NUT PRODUCERS/EXPORTERS

- storage facilities
- processing facilities

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SHRIMP AND FISH HARVESTERS/EXPORTERS

BACKGROUND

Participants in the export market for frozen seafood must maintain the high quality and quantity requirements demanded by the European market they serve. Of necessity, exporters must be adequately capitalized and financed during the pre-shipment and post-shipment periods. Assuming these criteria are met, the banking system in Ghana is anxious to finance such export operations on a short-term basis.

For the largest and most successful of the shrimp and fish harvesters, the harvesting/processing (pre-shipment) period is coterminous with the post-shipment financing requirement and both are financed under short-term lines of credit for the most successful exporters. Assignments of proceeds of 30 to 60 day time drafts sent through the banking system to European buyers on a documentary collection basis is an accepted method of payment. Repayment of financing extended occurs accordingly. A major exporter reported that payment was often forthcoming in as little as 10 to 21 days for air shipments.

Medium term financing for required capital equipment is not easily obtained in the local market. The rates are reported much too high. Accordingly, fishing craft are being financed off-shore with support from foreign export credit agencies, foreign banks or foreign government lending institutions through guarantees and foreign currency loans at favorable rates for at least one successful exporter. It was reported that proceeds of export sales are assigned to the lending institution.

PRE-SHIPMENT FINANCING REQUIREMENTS

Unfortunately, bank financing of the type noted above is not available for every viable exporter in the seafood market. Smaller exporters which purchase their product, i.e., the "merchant exporters", require cash to buy seafood to meet their orders. Producers or "merchant exporters" of salted or dried fish also require financing to serve the market for their product. Different products for different consumers require different processing requirements. A detailed analysis on a case-by-case basis is necessary to determine the appropriateness of the term for pre-shipment financing. It is reasonable that pre-shipment financing of up to three months duration be extended to such enterprises, but indeed more may be required.

Inventory and storage facilities are critical factors which lenders will have to attend to in the seafood financing business. Warehouse receipts and physical audits may also play a part in monitoring such a portfolio. Promissory notes will be the main form of debt instrument in this industry.

POST-SHIPMENT FINANCING REQUIREMENTS

Post-shipment financing must be based on the requirements of the export market. Offering a quality product with competitive payment terms is the only way access to the market can occur. Thirty to 60 day sight collections appear to be the standard payment terms for the established, well-capitalized exporters. All other suppliers will have to compete accordingly.

Of great concern for enterprises of this sort is that the exporter be properly advised of health and phyto-sanitary requirements of the buyer's market. It was, for example, reported that a shipment of salted tilapia were rejected for not meeting certain preparatory standards required in the importing country. This undoubtedly creates a circumstance of non-payment and one which could have been easily avoided with appropriate market research.

Bills of exchange will be the normal debt instrument for post-shipment financing. They are a standard part of export documentation for international collections and letters of credit. Verifiable orders and letters of credit will also allow for bills to be denominated in foreign currency, which, as noted above, will not create foreign exchange risk for either the exporter or the lender and may provide certain rate advantages for exporters serving the European market or markets where payment is negotiated in US dollars.

PROJECT FINANCE REQUIREMENTS: SHRIMP AND FISH HARVESTERS/EXPORTERS

- storage facilities for frozen and/or salted seafood
- ship financing
- processing/curing facilities

FRUIT AND VEGETABLE PRODUCERS/EXPORTERS

BACKGROUND

Fruit and vegetable producers/exporters, like the frozen shrimp and fish exporters, must meet the exacting European quality standards. The significant difference for this sector is the relatively smaller and less sophisticated capital requirements for successful production. Papaya, bananas. plantain, peppers, squash, pineapple, okra, green beans, mango, coconut, cashew nuts and citrus fruit all fall into this category. Yams for the regional market may also be included.

The Horticulturalists' Association of Ghana reports that of its forty (40) members which export, only ten (10) are able to obtain bank financing. This is typically short-term (90 to 180 days) under annual lines of credit. Some exporters are being financed up to 100% of the costs of shipment.

On average it takes about six weeks to prepare a consignment for shipment. Air shipments are generally paid for within four weeks, ocean shipments eight weeks. The average shipment is about US$15 thousand equivalent and four shipments are normally outstanding at any one time. (four weeks at one air-shipment per week).

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PRE-SHIPMENT FINANCING REQUIREMENTS

Interviewees indicated that up to eight weeks of pre-shipment financing for cartons and chemicals, which together represent about 36% of each shipment, would go a long way in assisting exporters. This represents about US$5,000 equivalent per shipment, or about US$20,000 outstanding at any one time. A guarantee scheme to encourage banks to lend to these exporters could be important, for it was noted that such a scheme would allow both existing and new exporters greater access to bank financing that has previously been denied.

Since pre-shipment financing would be for non-perishable inputs, which would not be used unless a shipment were being sent, taking a collateral position in the inventory would be meaningful for a lender. More importantly, the size of that inventory could be matched with the shipment size anticipated for specific produce being packaged for export. Lines of credit with advances on a promissory note basis or under an overdraft arrangement are the most likely debt instruments for such facilities.

For those "merchant exporters" which are consolidating shipments from many sources, pre-shipment financing could serve to facilitate cash payments to suppliers. The major issue in this case will be the time it takes to arrange purchase, the availability of storage facilities to protect the quality of the produce, and timeliness of the shipping arrangements. Such arrangements will have to be considered on a case-by-case basis. Consolidating a shipment of coconuts or copra in this manner could make sense. Arranging a shipment of okra, given the perishability of the pod, would be more difficult.

POST-SHIPMENT FINANCING REQUIREMENTS

Produce is usually shipped on a consignment basis, with the buyer agreeing to pay the freight. Post-shipment financing for the collection period of four to eight weeks seems reasonable given the payment experience of existing exporters. Promissory notes or bills of exchange are appropriate debt instruments and can be discounted and rediscounted as appropriate to meet funding and loan portfolio requirements. Longer financing, up to 180 days, can be granted as the need arises.

ASSOCIATION RECOMMENDATIONS FOR LENDING TO PRODUCER/EXPORTERS

The following criteria were suggested by representatives of the Horticulturalists' Association to help qualify borrowers:

1. The Horticulturalists' Association should be asked to comment on the creditworthiness of the borrower and recommend the borrower.

2. The borrower should have a track record as an exporter with at least six months experience. One exception might be made in the case where an experienced exporter begins to work with another grower entering the market.

To assist members in obtaining financing the Association has, from time to time, been able to assist in maintaining the quality of produce exported. They have also enforced quality criteria upon erring members. They are in close touch with the Ghana Export Promotion Council and are taking the initiative to work with SGS in Ghana and in overseas markets to arrange appropriate inspection certification to protect buyers and sellers.

PROJECT FINANCE REQUIREMENTS:FRUIT & VEGETABLE PRODUCERS/EXPORTERS

- agricultural loans to assist in expansion of production is required if new markets are to be served and existing markets are to be expanded
- storage and processing facilities for various types of perishable produce

HANDICRAFT PRODUCERS/EXPORTERS

BACKGROUND

Within this category are included carvers, basket weavers, specialty cloth weavers and dyers, and other makers of exportable handicrafts. This category covers a range of individual and group export activity and the members may or may not possess the knowledge and organizational structure that allows the easy identification of export financing opportunities.

The 1991 - 1995 Medium Term Plan for Non-Traditional Export Development has provisions for continuing the grouping of some craftsmen into cooperatives, improving the skills of the artisans, marketing handicrafts, and matching producers with "merchant exporters". This leadership and motivation will generate a need for appropriate pre- and post-shipment financing.

PRE-SHIPMENT FINANCING REQUIREMENTS

A basket weaver exporting to the UK indicated that his pre-shipment financial requirements primarily involved the purchase of curing, disinfecting and finishing chemicals which are imported components. His other main raw material is provided from his own land and woven by local artisans. These artisans are all related to him, at least through the extended family.

Labor and material costs are therefore not a financing issue in this phase of the production cycle.

More critical for the basket weaver is the time required to fulfill a specific order. Best estimates are that it takes about three months to manufacture enough hand woven baskets to fill a 20 foot container worth about cedis 8 million (c.i.f.). This artisan (manager) currently has two containers in preparation, but was unable to provide exact financing requirements for pre-shipment production. His needs are defined when he must pay his suppliers for imported chemicals. He has successfully sought assistance in planning and financing from the Export Finance Company and is looking forward to adding machinery to increase productive capacity.

Most artisans are not as organized as this entrepreneur. As efforts to organize craftsmen and craftswomen proceed, and as the effort to facilitate Export Production Villages begins to bear fruit, pre-shipment financing for handicrafts will have to be provided on a case-by-case basis. Such financing should reflect the length of the production cycle and will necessarily depend on the level of skill and organization of the individual artisans involved. For example, wooden carvings can be purchased by "merchant exporters" who will have to pay cash for the products; who will have to chemically treat the items, and who may have to arrange special packing and shipping to identified markets. Such a specialized consolidator with an appropriate order in hand, either through a letter of credit or other verifiable means, may need pre-shipment finance for up to 180 days. What the amount might be will have to be determined. Promissory notes against lines of credit or on a transactional basis will likely be the debt instrument of choice.

POST-SHIPMENT FINANCING REQUIREMENTS

Post-shipment financing for handicrafts created by individual artisans and shipped in efficient quantities can be made on sight draft, documents against payment, sight or time (usance) letters of credit. In these cases, short-term post-shipment financing can be rather easily defined and implemented. Bills of exchange generated can be discounted and rediscounted as required. Analysis of the source of payment and currency can define financing alternatives and potentially advantageous rate structures.

FURNITURE/WOODWORK PRODUCERS/EXPORTERS

BACKGROUND

These exporters include among their numbers some of the most sophisticated manufacturers and marketers in Ghana. The Ghana Furniture Producers Association is one of the most organized in the country. Its members are reportedly fiercely competitive although they do work together at a number of levels. Shipments are to the UK, Germany and other European countries.

The costs of production are defined at 70% for raw materials, 15 to 20% for labor, and 5 to 10% for overheads.

PRE-SHIPMENT FINANCING REQUIREMENTS

While each producer/exporter will require individual analysis, pre-shipment financing requirements can be defined in terms of a) imported raw material components such as fabrics, padding, threads; b) local components, such as special milled furniture blanks and hardwood boards and c) labor used in the production cycle. Working capital can be financed under normal secured or unsecured lines of credit or on specific transactional criteria in reaction to special orders. Terms may be from 90 days to one year depending upon the order to be filled.

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POST-SHIPMENT FINANCING REQUIREMENTS

Large shipments are typically made against sight letters of credit. Payments are usually forthcoming upon proper presentation of documents, but even under a letter of credit payment may take 30 to 60 days. Since average shipments total about three thousand pounds sterling, post-shipment financing against promissory notes or bills of exchange is deemed reasonable and provides the lender with the flexibility to discount and rediscount the obligation to accommodate its loan portfolio and treasury requirements. Since the obligations may also be drawn in foreign currencies depending upon the defined source of payment, the borrower may be able to obtain certain rate advantages.

In order to compete in new markets, extended terms may be granted through post-shipment financing, but the exact time frame will have to be determined by the parties to the transaction.

PROJECT FINANCE REQUIREMENTS:FURN./WDWORK PRODUCERS/EXPORTERS

- equipment financing
- import substitution industries

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OTHER LIGHT MANUFACTURING: ALUMINUM FABRICATION & MAT AND CARPET PRODUCTION

BACKGROUND

Light manufacturers in Ghana, like similar industries elsewhere in the world, produce primarily for the domestic market. With appropriate foreign market identification, marketing strategies and marketing assistance when required, exporting becomes a new and desirable sales opportunity. Export sales utilize available capacity, smooth out the manufacturing cycle and income stream when domestic demand wanes, and help the country with foreign exchange earnings. Two light manufacturing companies were interviewed. Their stated pre-shipment and post-shipment financing requirements were strikingly similar, although their products were completely different.

One manufacturer produces aluminum windows and doors for both residential and commercial buildings, including the largest office structures in the country. It purchases raw material (aluminum channels and stock) from local manufacturers and has been in business for 20 years. Now 100% Ghanaian owned, the company began as a Ghanaian/Israeli Joint Venture. It has been exporting for a year to Sierra Leone and has plans to sell in Cote D'Ivoire, Nigeria, Benin and Togo. This firm counts the ECOWAS countries as a natural market and is anxious to see how the regional clearing arrangements of one currency to another might help its sales.

The company is near the end of some critical expansion, with loans from the IFC, a local merchant bank and a commercial bank. This expansion will provide the ability to manufacture ceiling strips and add to existing capacity. Exporting carries smaller profit margins by this company's best estimates, but is a desirable activity from the point of view of future market diversification. The company has 60 employees, including 45 on the shop floor requiring moderate skills, i.e., comparable to those of a carpenter. Employees are cross-trained in production and installation, an activity which may have to be specialized in the future.

The second company is a manufacturer of mats and carpets from completely artificial "straw" whose primary components are imported resins, polymers and yarns. The factory is relatively capital intensive, employing extrusion equipment, automated cutting and weaving machines capable of weaving continuous mats with repetitive designs and color combinations. It employs up to 80 people on a single eight hour shift and can make 60,000 mats in three months. The company is 17 years old and has been exporting for 10 years. Total sales are about US$300 thousand equivalent with 75% being exported: 25% to Europe and 50% to regional markets in Nigeria, Burkina Faso, Togo, and Cote

D'Ivoire. Recently cheaper, lower quality imports from Taiwan, Korea and China have hurt sales.

PRE-SHIPMENT FINANCING REQUIREMENTS

Inputs for the manufacture of products by each company can be accurately quantified. Raw materials rather than labor are the largest cost components and both companies are eligible for duty drawback facilities. Exports are often done against special order, but the ability to demand letters of credit is affected by a competitive market. 60 to 90 day financing of inputs for the manufacture of export orders is an acceptable term, and both principals agreed that guarantees extended to lenders would be useful, not only in their cases, but for other exporters in the community. Lines of credit drawn against by promissory notes or under overdraft arrangements are considered the easiest way to manage such a facility.

POST-SHIPMENT FINANCING REQUIREMENTS

Both companies believe 90 to 180 day post-shipment financing is required in order to be competitive in the market. Bills of exchange can be generated when shipment occurs. These can be discounted and rediscounted as loan portfolio and treasury requirements demand. The mat and carpet manufacturer sees a need for financing up to four shipments per annum, unless a special order comes in. This equates to about US$60,000 outstanding at any one time, assuming 90 day terms, which in fact may be a little too tight, and definitely not enough if a special order comes in or a delay in payment occurs.

The aluminum manufacturer has not had enough export sales to estimate requirements, but can estimate that if he is to achieve a 30% increase in foreign sales, at least 90 day financing will be necessary to enter new markets.

CONCLUSIONS AND CONSTRAINTS

Every lender and every borrower must reckon with the following risks:

1. Market risk. The demand for a particular product can disappear in the face of competing supplies, changing preferences of consumers, fashion trends, etc.
2. Performance risk. Manufacturing and/or collecting an adequate amount and quality of product within the time frame of the expiry of a letter of credit or other form of purchase order and meeting shipping schedules is critical to protecting the selling price and is dependent on more than just internally controllable factors.
3. Exchange risk. Selling into a foreign market may require that billing be done in currencies that put the seller at risk due to changes in exchange rates by normal and other than normal market forces.
4. Buyer risk. The refusal or inability of the buyer to pay for goods ordered, either due to commercial risk issues or product dispute is a fact of life despite all the efforts made to control or eliminate the risk.
5. Political risk. War, riot, revolution, expropriation, civil commotion, cancellation of export and import licenses, unavailability of foreign exchange can all affect payment to the exporter.

A well structured company or association can quantify, manage and provide for some of the risks above to the satisfaction of a lender. Other factors, however, constrain access to financing. Among them are:

1. Unfamiliarity of the lending institution with the market.
2. A sudden surge in the level of sales of the existing exporter that puts its ability to perform, in the opinion of the lender, at a higher level of risk than the lender is willing to assume.
3. Unfamiliarity with a small and/or new-to-export company.
4. Competing opportunities for financing institutions to lend to businesses with more familiar risk scenarios and collateral requirements.

Access to required credit in the above cases will require incentives to the lender in addition to any that the lender may have already received to induce it to provide pre- or post-shipment financing. Adding equity or changing collateral margins may not be an option for the borrower.

One of the most effective incentives is credible guarantees.

RATIONALE FOR CHOOSING 65% GUARANTEE COVERAGE FOR PRE-SHIPMENT EXPORT CREDIT GUARANTEE FACILITY

FWA was requested to elaborate the rationale for recommending that the pre-shipment guarantee facility cover 65% of the loan principal, including discussion of the percentage coverage utilized in other countries.

The 65% coverage figure was selected for several reasons, the primary ones of which were to (1) choose coverage that would make the guarantee of value to the banks, while assuring that banks assumed sufficient risk to have a clear, vested interest in analyzing, monitoring and receiving timely payment from the companies guaranteed; (2) be consistent with successful guarantee programs in other countries.

The "pros and cons" of 75% or higher coverage versus the 50% coverage utilized in the A.I.D. Private Enterprise programs are set forth below.

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Rationale for 75% or Higher Coverage:

Pros

a. Is perceived by banks as significantly limiting their risk and is therefore attractive

b. Is an incentive for banks to lend where they would not otherwise

c. Reduces the amount of collateral required by banks

d. Reaches larger number of exporters because more may qualify

e. Generates higher premium income to support administrative costs and add to reserves

f. Is consistent with programs in other developing countries

Cons

a. Requires more monitoring by guarantor

b. Supports smaller amounts of exports relative to the reserve base

c. Larger risk of potential default if banks do not analyze/monitor credits as they would if banks' own risk were larger

d. May require more monitoring by USAID depending on how guarantees are managed

e. May have higher administrative cost

Rationale for 50% Guarantee Coverage:

Pros

a. Requires less monitoring

b. Increases amount of exports that can be supported

c. Lowers administrative cost

d. Is consistent with other PRE Guarantee Programs

Cons

a. Is less attractive to banks because guarantee protects against less risk

b. Fewer companies will be eligible

c. May be viewed by banks as an additional safeguard for business that would have been done without the guarantee, and therefore no additional benefit to NTEs

d. Less coverage than guarantee programs in other countries

Export credit guarantee programs are found primarily in developing countries where the financial systems are insufficiently developed to meet the pre-shipment finance needs of exporters. In industrialized countries, export finance requirements are met to a large extent by private financial markets, primarily commercial banks.

The only exception among the industrialized countries with a substantial level of activity is the Swedish guarantee program. Other exceptions include a small number of export guarantee programs operated by individual states in the U.S. (e.g. California), the small business export finance programs operated by SBA and Eximbank, and limited programs in Australia and Norway.

In 1989, Yung Rhee of the World Bank reported that 10 of 52 developing countries had pre-shipment export finance guarantee programs. FWA was aware of 25 developing countries with such programs in 1991. The largest programs are in India, Indonesia and Mexico. In India, ECGC cover is required to obtain packing credits (pre-shipment finance), but specific guarantee approval must be obtained from ECGC. In Mexico, guarantee coverage is required to obtain government-sponsored pre-shipment financing and the guarantee given semi-automatically upon payment of premium. The same was true in Indonesia. However, the volume guaranteed by Pt. Asei in Indonesia is declining due to changes which make access to the financing program less attractive. New programs in Sri Lanka, Malaysia, and the Philippines also provide guarantees virtually automatically, if certain criteria are met, such as possession of an export letter of credit or an export order, no negative information exists on the exporter's payment performance or business integrity, and the exporter has a certain amount of export and/or business experience.

Developing country pre-shipment export finance programs typically cover from 65% to 85% of the loan value. Some also require that the loan not exceed a certain portion of the export value (e.g. 85%), assuming that the exporter should be responsible for the portion of the export value which represents profit. The Indonesian export guarantee program covers 85% of the loan value. Other Asian credit guarantee programs (not just restricted to exports) cover from 65-80% of loan value. One exception is the highly successful Korean Credit Guarantee Fund (KCGF) which now covers 100% of the loan amount. It should be noted that in the 1980s the KCGF ended emphasis on guarantees for exporters and now covers exporters and domestic suppliers on the same basis. In industrialized countries, guarantee programs tend to cover 85%-100% of loan transactions. Most such programs are geared to small and medium-sized businesses in general rather than towards exporters.

Few countries in Sub-Saharan Africa operate pre-shipment export guarantee schemes. Lesotho and Swaziland have established programs in the last few years which cover 75%-80% depending on whether individual transactions are supported or revolving lines of credit to established exporters. Both involve the Central Banks that also operate concessionary refinance facilities.

The FWA consultants concluded that the 50% guarantee would be useful but would not be sufficiently attractive to banks to encourage them to extend loan facilities to many more NTEs. While a 75% guarantee would be comparable to the experience in other countries, bankers in Ghana appeared to find the 65% figure quite acceptable. If 65% is too low to attract sufficient bank participation, the percentage could subsequently be raised, if necessary, based on experience. However, subsequently lowering the percentage is much more difficult and certainly would affect the credibility of the guarantee program.

ATTACHMENT F

POTENTIAL ROLE FOR USAID, COMMERCIAL BANKS, INSURANCE COMPANIES, AND THE GOVERNMENT OF GHANA IN THE GUARANTEE PROGRAM

The key factors that contribute to the success and failure of export credit guarantee programs are discussed in the paragraphs that follow. These comments are based on FWA's knowledge of other developing country guarantee programs. This discussion may provide some context for the issue of appropriate providers of guarantee support to exporters over time in Ghana.

Credit guarantee schemes are unsuccessful for a number of reasons. Lack of use due to inappropriate terms and conditions is a primary cause of guarantee program failure. If the guarantee does not cover enough risk, banks will not perceive enough benefit from the guarantee to cause them to lend to exporters who would have been turned down otherwise. If too little coverage is granted, the bank just adds the guarantee to its existing collateral to secure the loan, rather than lending more or freeing up collateral. If too much coverage is given, banks tend to pay less attention to monitoring the account and the possibilities increase for of misuse of funds/fraud. If the application and approval processes and reporting requirements are burdensome, the program will not be used. If claims are not paid promptly, the program will lack credibility and not be used.

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Some programs have failed because of high losses. High losses tend to occur in government programs where political interference happens or where there is a cultural perception that government programs are grants that are owed to people rather than obligations to be repaid. Another cause of failure is high administrative cost relative to premium and investment income. As a result of these financial failures, valid claims payments are delayed or rejected, subsidies are required, and/or the programs are decapitalized. It should be noted that some countries, such as Korea, chose to provide substantial subsidies through the guarantee program in order to promote exports.

Successful programs share characteristics such as guarantee coverage that banks consider beneficial which allows them to lend where they would not otherwise, ease of application and reporting, and prompt claims payment (e.g. within 30 days). The guaranteeing organization must be seen as having sufficient resources to pay claims promptly. Additionally, if possible, programs should provide coverage that is comparable to other successful guarantee programs operating in the country.

Ideally, over time, a guarantee program should be self-sustaining. This means that premium and investment income are sufficient to cover claims and administrative costs, plus add to reserves to allow for growth of the guarantee program. This is a long term objective. Year to year results will vary, with losses in some years balanced against gains in other years. To expect that a guarantee program of this nature will make enough money to pay a return to shareholders that is competitive with other investments is inappropriate. Such objectives usually lead to very conservative risk analysis and reluctance to pay claims, rather than encouragement of lending to exporters. No methodology has been developed to predict guarantee losses on an actuarial basis.

For a guarantee program to be sustainable over time, it should have a sufficiently large volume of business to enable it to cover administrative costs through premium income, and if possible, contribute to reserves for losses. It should cover as large a number of exporters as possible in order to spread risk in the portfolio.

The volume that can be covered is constrained by the number of eligible exporters, and the resources available to support the guarantees. The available resources depend on the amount of initial capitalization, the possibility of accessing government or other resources, investment income and claims experience. The extent to which resources can be leveraged to issue guarantees reflects the amount of risk in the portfolio and the possibility of raising additional resources, if necessary. FWA believes that leveraging should be conservative initially, and if experience warrants, leverage increased subsequently. Guarantee outstandings of four times capital and reserves would be the maximum until experience is gained. A seasoned, successful program might be leveraged at ten to one.

Dependence on government or donors to provide ongoing operating support is a poor solution for developing countries, in most cases, because these sources are not certain (and indeed many bankers would not have confidence in government's ability to pay) and discourage efficient operation of the guarantee programs.

The main objective of an export credit guarantee program is to encourage banks to lend for single transactions and/or lines of credit that could not qualify under the banks' normal lending policies and procedures. This is done by assuming part of the risk that the exporter would not pay. With the loan, the exporter is better able to start or expand export activities which generate needed foreign exchange. The guarantee reduces the portion of the risk related to non-performance (exporter's inability to fulfill export orders) and misuse of funds (using loan funds for purposes other than preparing and shipping goods to fulfill an export order). Guarantees enable banks to lend money to exporters who cannot supply adequate assurances to banks

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of their ability to pay, due to the exporters' lack of experience or collateral.

Companies that are beneficiaries of the guarantees are expected to become bankable over time under banks' normal credit procedures. In other words, they graduate. Successful export and loan repayment performance by guaranteed firms should result in banks being willing to lend without a guarantee. As financial markets develop and modern trade finance mechanisms are adopted, the need for pre-shipment export guarantee programs theoretically declines, although small and new to export firms may continue to need guarantee support.

In Ghana, it is reasonable to assume that as banks become stronger and have positive experience with firms that have benefitted from guarantee support, they will undertake to lend to some of them without benefit of the guarantee. However, they cannot be expected to support all NTEs that have the potential to be successful exporters. A major objective of the project is to support an expanding number of NTEs in Ghana. With the development of firms that are new to exporting and rapid growth of existing exporters, the need for guarantees is likely to continue indefinitely.

While insurance companies could theoretically assume the function of providing domestic credit insurance to Ghanaian exporters, several factors mitigate against their assuming the entire function as individual companies. To provide an adequate volume of coverage, some reinsurance facilities would be needed. Based on current conditions, such reinsurance would be difficult to obtain internationally and domestic capacity is limited. As credit insurance is quite different from the normal lines of business of most Ghanaian insurance companies, requiring credit and collection skills as opposed to actuarial skills, many of the insurance companies in the country would find this business uninteresting and unprofitable due to inability to assess risk adequately and the high cost of staffing. A joint undertaking by a number of insurance companies might be more feasible as risk exposure and costs could be shared. However, as noted earlier, effective domestic credit insurance for exporters as a line of business might not be sufficiently profitable to encourage participation by insurance companies unless collateral business could be obtained (e.g. property and casualty, marine, etc.).

The commercial and merchant banks might have a greater interest because of the more obvious loan, foreign exchange and other related business that can be obtained. If a large number of banks and insurance companies participated, each having to contribute a relatively small amount, such an undertaking might be more attractive.

If the guarantee program that is established with USAID seed money and technical assistance is well designed and administered, USAID withdrawal from any active role is possible after five years. As proposed in the FWA report, the guarantee program would be administered initially by a merchant bank. The program could develop subsequently in several ways. The program could be spun off and made a free-standing program owned and managed by shareholders (most likely commercial banks, merchant banks and possibly insurance companies). The guarantee program could be incorporated into an Eximbank that was formed to meet a variety of finance needs of Ghanaian exporters. A successful EFC might be the core of such a bank, and it is an organization that is already owned to a substantial extent by private financial institutions.

An evaluation after three years of operation should provide an indication of the potential for the guarantee program to be self-sustaining over the long term and an opportunity for making changes in the program if necessary. At that point also, it would be appropriate to plan for institutionalization or winding down of the program.

If, after a 5 year period, evaluation indicated that the program was not contributing as expected to the support of Ghanaian exporters, and that it was being decapitalized as a result of losses and/or costs of administration, USAID could

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advocate disbanding the program and reallocating any remaining resources to other uses.

As suggested by the FWA consultants, it is not envisioned that USAID should continue to support the guarantee program beyond the five year time-frame and no additional operating support is contemplated. However, more detailed projections will be necessary to determine more precisely the amounts and timing of USAID support, and determine at what level of operation and in what time-frame the program could become self-sufficient.

No subsidy is intended or implied in the FWA proposal. The technical assistance, the amounts needed to cover administrative costs for the first years of operation and the seed money to support the projected level of guarantees were conceived to be the entire USAID intervention in this area. While this could be construed as a subsidy if losses result in decapitalization, this is clearly not the intent. Likewise, USAID might choose to provide administrative support. The seed money and technical assistance were viewed as constituting part of USAID assistance to Ghana, not as a subsidy to a particular sector.

The question of what the role of the Government of Ghana might be is somewhat difficult to determine. If the guarantee program somehow were assumed by the Government (by the Bank of Ghana, for example), USAID would probably have to concur. If the

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Government mounted its own program, using its own resources, it could choose to issue guarantees to poor risks or issue guarantees at low premium rates that did not cover even administrative costs. However, given the history of its other credit guarantee program, it is unlikely that the Bank of Ghana would implement a new pre-shipment export guarantee program of substantial size in which it assumed the risks for its own account. Nevertheless, the possibility exists that the Government would launch such a program. If the Government supports the USAID-sponsored guarantee program managed by a private sector entity, Government intervention with an additional program would not seem likely. The Bank of Ghana did indicate to the FWA team its interest in management of a guarantee program sponsored by USAID (as opposed to mounting a program with its own resources) and had worked on some proposals for policies and procedures for such a facility.

In summary, the true measure of success of any USAID assistance will be the de facto aggregate increase in non-traditional exports. For the next five years, the Government, the insurance companies and the banks will be working together to "jump start" the NTE sector, and USAID can make a quantitative and qualitative contribution to this effort.

From the point of view of access to financing, the FWA report documents that non-traditional exporters in Ghana are being denied bank credit for various reasons beyond their control. These include the conservative lending posture of the banks, strict collateral requirements and a lack of knowledge of the techniques of pre- and post-shipment export financing on the part of both exporters and banks. There are a significant number of non-traditional exporters in the formal sector who would "jump" into a bankable position with the implementation of a properly structured pre-shipment and post-shipment USAID sponsored loan guarantee program. There are also companies, bankable at existing levels of sales, who would increase sales of non-traditional exports if additional working capital became available, based upon an acceptable guarantee. Over a two to five year period some of these could certainly become bankable in the private sector without assistance of the USAID program. It should be noted that the question of those non-traditional exporters just outside the formal sector remains to be addressed.

These other NTE's outside the formal sector which are not commercially bankable require remedial development to qualify for access to commercial bank financing. Hands-on assistance from a bank, like the EFC for example, could significantly enhance their passage into the formal sector. This assistance, together with the USAID loan guarantee, should be able to expand the bankable NTE sector in the short-term.

The effect of the above would be to create a pipeline of NTE's at varying levels of growth while simultaneously adding to the aggregate amount of non-traditional exports, which is the overall objective of the Program. USAID involvement in the financial structure of Ghana will diminish as a portion of the whole as private sector institutions assume the risk of the successful NTE's. More importantly, USAID will be able to make a business decision to continue to support new, incremental NTE's with the guarantee program, or move on to other activities as the Government and the private sector assume development of new NTE's.

The FWA recommendations do not advocate either the Government or USAID subsidizing NTE's in the sense of providing pre- or post-shipment loans at below market rates. We do not believe the level of rates offered to NTE's to be as critical as the availability of credit to Ghana's NTE sector, particularly since rates seem to be dropping and foreign exchange restrictions are easing.